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Truman for Planned Economy

President, in impromptu address, distinguishes it from controlled economy and says it is absolutely essential that our economic structure remain sound and prosperous. Stresses America's international responsibilities and extols operations of National Employment Act.

In an impromptu talk before the National Planning Association in Washington on Feb. 1, President Harry S. Truman went on record as favoring a planned economy, but distinguished it from a controlled economy on ground it was "for the welfare of the people." The text of the President's address follows:

President Truman

I remember some — let's see, I think it has been about six years ago, I was present at a meeting of this organization, when you were discussing post-war plans. That was in 1943. You were worried about what was going to happen to the country after hostilities ceased. You were wondering how many people were going to be put out of work, and you were wondering how many

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Double Taxation, Investment And Enterprise

By LEWIS H. HANEY*

Professor of Economics, Graduate School of Business Administration, New York University

Dr. Haney pictures acuteness in lack of venture capital which he attributes to destruction of incentive to private investments by government under domination of Keynesian New Deal ideology. Scores double taxation of corporation profits, and advocates collection of all taxes from corporations be made in one operation. Denies corporate profits are excessive.

Everybody now recognizes that one of the nation's great problems lies in the supply of "venture capital." This "venture capital" is the supply of funds ready to go into new ventures such as television or into risking some expansion of plant capacity that may never pay.

Lewis H. Haney

One evidence of the acuteness of this problem appears in the stock market, which is the great market for venture capital. The low prices of common stocks tell the story.

For the first time in our history, we see banks paying only 1½ to 2% and people with savings clamoring for decent interest, while high-grade common stocks go begging at 6-7%.

Such a condition has never been approached, except perhaps in deep depressions.

As a result, the growth of investment in plant and equipment has begun to taper off. Corporations can't get venture funds by the sale of stocks, because of the fear and hesitation among inves-

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*An address by Dr. Haney at Investors' League Meeting, New York City, Jan. 27, 1949.

Business Implications of National Security Programs

By RALPH J. WATKINS*

Director of Office of Plans and Programs, National Security Resources Board

Mr. Watkins lists components of National Security Program along with their budget authorizations and estimated costs. Holds program will involve expenditure of at least $22 billion in fiscal year 1950, and a higher total is in prospect for 1951. Concludes impact of Security Program will exert pressure on steel output only, and will not create serious manpower shortage.

The subject on which I must speak this morning — "Implications of the National Security Programs for Business Planning" — is one which by its very nature calls for some latitude in the expression of personal opinions. In consequence, I should like to state at the beginning that the views I shall express in this presentation will be my own and that they do not necessarily reflect the views of the National Security Resources Board, with which I have had the honor to be associated on a part-time basis over the past year and with which I am still associated on the same basis.

Ralph J. Watkins

I

What are the National Security Programs?

It is appropriate that I make

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*An address by Mr. Watkins before the American Management Association, New York City, Jan. 20, 1949.

EDITORIAL

As We See It

. . . And What a Hand!

Newly elected President Truman has now really begun to "tip his hand"—and what a hand it promises to be! Take only two of the numerous measures which the President has urged upon or will soon urge upon Congress, the Taft-Hartley repeal bill and the suggested revision of "old age and survivors" legislation, as examples. The labor bill is technically a "one-package" affair, a form of legislation which the unions are supposed to have opposed in this instance, but, whatever may be said to "save face," we can scarcely conceive of labor leaders really objecting to this measure now placed in the hopper. Apparently the so-called social security program would be amended to reach, if not "from the cradle to the grave," then something not very far from it, and it would bring into its embrace, willy-nilly, the cowboy, the farmer, the peddler, the doctor, the professor, and all the others alike.

The thoughtful man with the good of his country at heart can hardly do other than to hope that Congress will insist upon having a mind of its own concerning these matters, and that its mind will prove much superior to that of the Chief Executive. Details may well be left to those with

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Business and the Stock Market in 1949

By ANTHONY GAUBIS
Anthony Gaubis & Co.

Investment counsellor asserts business activity will remain high until next Fall, when short and sharp readjustment will get under way. Regarding stock market, Mr. Gaubis predicts any recession will be brief although perhaps violent. Expects stock prices will range between highs reached in 1946 and 1948 on the upside, and above 1946 lows on the downside.

For the first time since October 1946, we find ourselves somewhat less optimistic about the business outlook for the next 12 months than are most of the government and financial economists. Specifically, we believe that business activity will hold at fairly close to the high levels of the past two years for another eight to ten months, **but we no longer feel that businessmen can be confident of well sustained over-all activity for the year as a whole.**

Anthony Gaubis

Our reasons for expecting a continued high level of business activity until next Fall, and for our belief that the long awaited downward readjustment in the total volume of business will probably get underway during the closing months of the year, can be summarized as follows:

Pent-Up Demand

There is still a sufficient pent-up demand for the products of the highly cyclical and normally seasonal industries to ensure a high level of activity through at least the first eight or nine months of this year. We have in mind specificially the automotive, construction, railroad equipment and petroleum equipment industries, as well as the steel industry.

In the case of the automotive industry, sales during the next nine months are likely to be limited only by productive capacity, for all of the leading models. The rate of production during this period should exceed 1948 levels, by perhaps as much as 5% to 10%, if additional steel becomes available. However, the seasonal letdown which may be expected late in the year could be the beginning of a moderate cyclical decline in this industry, particularly in the case of the higher priced cars and the products of the independent manufacturers.

A decline in new contracts over the near-term will not materially affect total construction activity during the first-half, as this would permit acceleration of work on projects already started.

Freight car production shows promise of exceeding year-ago levels during at least the next six to eight months, but unfilled orders are now about 15% below where they were on Jan. 1, 1948, although they are equal to about 10 months' production at the current rate.

Exports

Exports are likely to increase over the next six months, partly because of the recent acceleration of ERP fund allocations. However, the probabilities favor a reduction in the export of food products, a very important item in foreign trade, during the coming crop year, inasmuch as last year's bumper European crops have permitted most countries to build up their working inventories.

Our net export surplus during 1948 is estimated at $5.5 billion, as compared with $9.6 billion in 1947. A further substantial decline in our net export surplus is likely by 1950. In the 1919-1921 period, business activity declined sharply about six months before there was a sharp decline from the $3 to $5 billion export surpluses enjoyed in each of the four years, 1916-1919.

Armament

Present indications are that government expenditures for armaments during 1949 will be only moderately (about $3 billion) above the expenditures of last year. There is a danger that even the planned level of expenditures for armaments might be cut back sharply before the end of the year if we come to any sort of an agreement with Russia which would permit a check in the world-wide rearmament race and/or Congress balks at raising taxes by $4 to $6 billion.

Boom Stimulant

It is recognized by most business students that the continuation of any business "boom" requires new stimulants from time to time to keep the "boom" going During 1948, the three principal stimulants were the third round of wage increases; a general reduction in taxes on individual incomes; and the enactment of the Marshall Plan.

The probabilities are that any fourth round of wage increases will be both selective and relatively small; that Marshall Plan spending for the 12 months beginning July 1 is likely to be scaled down from the funds to be spent during the current fiscal year; and that there will be no further reductions in taxes on personal incomes. However, it should be remembered that the full effect of last year's tax reductions on personal incomes were not felt by the masses until May 1, and that substantial refunds against taxes withheld during the first four months of 1948 will be paid to many individuals during the next few months.

Plant Expansion

Government estimates of expenditures for plant expansion indicate that this type of spending will be above year-ago levels during at least the first-quarter of 1949. However, there is evidence that plant expansion programs of the larger corporations are nearing completion, and that there will be a sharp contraction in industrial construction during the last six months of 1949.

Any increase in corporate tax rates (which probably will not be voted upon until sometime in the second-quarter) will also tend to reduce corporate expenditures in the last-half of the year. Enactment of a tax on undistributed profits would have a particularly adverse effect on this type of spending.

Retail Trade

Retail trade will probably hold at slightly below the 1948 ratio to disposable national income. This should mean total dollar sales during the first six months which are about in line with those of the first six months of 1948. Lower food costs should reduce the pressure on family budgets, but this factor will probably be offset by the increase in instalment commitments for the purchase of homes, automobiles, and other semi-durable goods.

Any contraction in the activity of the heavy goods industries during the last half would almost certainly result in a decline in total payrolls, and therefore a decline in retail trade.

Agriculture

Spending by farmers during the first half of any year is, of course, related primarily to the income received from crops harvested during the preceding year. Such spending will be at a very high level during the first half of 1949 However, present indications are that farm incomes during the coming crop year, and therefore disposable income of farmers in the closing months of 1949, will be substantially below year-ago levels.

Strikes

There is a definite possibility of strikes in certain key industries and particularly in the coal industry, when present contracts expire on about July 1.

The record shows that strikes during the early stages of a business recovery are inflationary (because they reduce the supply of goods at a time when demand is on the upgrade), but that they are deflationary when they occur during the advanced stages of a business boom (because of the effect of reduced buying power on our economy when supplies are in balance with demand.)

The "Political Cycle"

We are now at the same point of the "political cycle" as we were in January, 1937. At that time, the economic planners surrounding President Roosevelt assumed that the re-election of their sponsor constituted a "mandate" to step up economic and social reforms.

It may be in order to recall that during the election campaign of 1936, we were told that "Business did not just happen to be good; we planned it that way!" A year later, we witnessed one of the sharpest declines in the Federal Reserve Index of Production in the history of that index. It is also pertinent to note that following World War I, and as late as February, 1921, high Government officials were accusing the steel industry of deliberately creating an artificial shortage of steel.

The War Threat

In the above discussion, we have made no mention of the possibility that the cold war which has been

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Administrative Intrigue

SEC and NASD flout court in proceedings against Otis & Co. Seek to compel disclosure of confidential communications despite restraining orders. Otis & Co. institutes further injunction proceedings. Evasion decried. Dispute with Kaiser-Frazer private. Policy should be hands off. SEC has outlived usefulness. Unjust punitive forays alarming. Abolition advocated.

Again we envisage the conduct of those two administrative police partners operating out of the same precinct, the SEC and the NASD in their activities embracing the Kaiser-Frazer, Otis & Co. dispute.

As we have emphasized, we take no sides in that dispute. The parties have placed their differences before our courts wherein an opportunity will be afforded under proper safeguards to submit all evidence. We leave the decision there.

The SEC and the NASD would have done well to react similarly.

Instead they embarked upon a one-sided punitive expedition against Otis & Co., via hearings bereft of the basic right of cross examination, and attempted through this medium to invade and penetrate the sacred right of secrecy to which confidential communications between attorney and client have been entitled since the early common law.

All this arose out of the repudiation of an underwriting agreement, in which the rights and equities are presently before the United States District Court for adjudication. At best the dispute is a private one conducted by reputable litigants, and the administrative bodies should have adopted a neutral and strictly hands off policy until judgment is rendered.

It took the decision of Judge James W. Morris of the United States District Court, District of Columbia, to stymie the forced disclosure of confidential communications for he denied the Commission's effort to enforce its subpoenas.

All this the NASD knew, and to all this it was a party.

To date the roster of judicial determination now reads as follows:

(1) Judge Letts of the same court has held that the NASD may not compel the disclosure of these confidential communications if such disclosure conflicts with the jurisdiction of Judge Morris to prevent that disclosure;

(2) Judge Morris has ruled that disclosure of these privileged communications must be denied to the SEC; and

(3) The U. S. Court of Appeals has enjoined the SEC from prosecuting a hearing involving the alleged subject matter of these communications.

Despite these decisions the NASD has instituted a disciplinary proceeding against Otis & Co. in which it attempts to relitigate the same issue.

We call this contemptuous conduct, indecent haste, and a serious interference with the jurisdiction and judgment of the Court.

In a proceeding brought by Otis & Co. to restrain the NASD, it is alleged:

"By its order, the NASD is now attempting to force the disclosure of these privileged communications and, if successful, will furnish to the SEC the information which has been denied the Commission by the order of Judge Morris and denied to the NASD by the order of Judge Letts in a decision which overruled the NASD on all the issues which its order now attempts to relitigate."

The privity that exists between the SEC and the NASD is common knowledge. This the Maloney Act makes plain for it gives to the former, in statutory form, complete domination of the latter. These two are as one. Enforced NASD subservience operates to make them so.

Their in camera activities excite our interest. These we have tried to pierce without success. Will these gentlemen who flout the courts and seek to invade the veil of confidential communications set an example by publishing their own office memoranda on the disputed issues? What interorganization conferences have they

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Economic Situation Basically Strong

By HON. JOHN W. SNYDER*
Secretary of the Treasury

Asserting nation continues highly prosperous and economic situation basically strong, Secretary Snyder holds return to buyers' market should not mean depression, but rather furnish impetus to more efficient productive methods and new products. Says Administration's program is directed toward high level economy through encouraging healthy business development and restraining excesses of past. Sees need for construction of more utilities and public works.

In carrying out the duties of my office, I have found it essential to enlist the cooperation of many groups. In helping to work out problems relating to government financing, for example, the representatives of banking, insurance, and industry have organized advisory committees to work with the Treasury Department on matters of common interest. In addition to these regular committees, various groups are consulted from time to time with regard to details of the government's fiscal program.

John W. Snyder

Other formally organized committees have been set up for various specific purposes. In connection with the savings bond program, for instance, 19 committees have been established to present the views and ideas of such groups as agriculture, industry, education, newspapers, advertising groups, and other organizations.

The management of a government agency is not merely the responsibility of its chief officers. It is the responsibility and deep concern of the entire nation. The government we have in this country is the kind of government that you and 148 million other Americans have made it.

The National Debt

I should like to talk with you a little about certain of those financial problems of the Federal Government with which all of us are directly concerned. And, one of the most vital of these problems, and a principal responsibility of the Treasury Department, is the management of the public debt—a debt which was expanded by the requirements of war financing to a peak of $280 billion in early 1946. In spite of its appreciable reduction in the postwar years, our debt still exceeds $250 billion.

The visible evidence of this debt, of course, is in the government bonds, notes, and other securities held by individuals, banks, insurance companies and other institutions. The servicing of this debt requires an annual Federal expenditure of some $3½ billion in interest.

Before the war, the public debt was less than 25% of all public and private debt. Today, it constitutes some 55% of the total debt of the nation. The proportionate size of the Federal debt makes it a dominant factor in determining interest rates on private debt and the return on private investments. Thus, the prices of Federal securities have a far greater influence than ever before on the financial interests of all of us.

These figures and comparisons point to the compelling necessity for careful management of the public debt in the interest of the economic well-being of the country. Only through careful operation, with the help and cooperation of many groups, could the Federal debt be managed in such a way as to become a source of stability and confidence in our economic environment.

The economic development of any people is based upon a foundation of confidence — a confidence in national institutions, in certainty of their jobs, in safety of their investments, and in economic security. Above all, the economic development of a nation must be based on the financial soundness of its government.

And, I do not need to call your attention to the different degree in the development of nations—those whose governments are financially sound as contrasted with those which lack financial confidence. The evidence has been particularly striking in recent years.

My major objective and responsibility as Secretary of the Treasury is to maintain the financial soundness of the United States Government. This involves two separate lines of action: to develop a sound fiscal policy; and to maintain confidence in the government's credit.

Result of Sound Fiscal Policy

A sound fiscal policy at this time must be based upon a revenue system that will meet the cost of prescribed governmental functions, and at the same time provide adequate funds to reduce the public debt.

I believe that the measures which have been taken to maintain a sound fiscal policy and to promote confidence in the government's credit have made a marked contribution to the prosperity which we now enjoy. We are well into our fourth postwar year, and we have maintained continued high levels of production, employment and incomes. This condition is evidence of a remarkable basic confidence throughout the nation. And I believe it can be reasonably said that the management of the public debt since the war, and the maintenance of a continued period of stability in the bond market, have contributed materially to this situation.

A primary credit for the continued stability of business levels must be given to the good sense of the American people in refusing to be stampeded into overbuying and excessive speculation; to various credit restrictions which have been placed in effect to reduce inflationary borrowing; and to the sensibly cautious attitude which has prevailed among businessmen in the postwar period.

This cautious business attitude, which is derived in large part from a desire to avoid the business losses experienced after World War I, has been a most important stabilizing factor in our economy. It has led to cautious inventory programs in nearly all industries.

Every year-end since the war has been marked by a wave of apprehension over the business outlook for the following year. The end of 1948 was no exception. But those industries which were temporarily over-extended completed their adjustments rapidly, and the general business level was little affected.

Economic Situation Strong

There is every reason to believe that the economic situation remains basically strong. It is true that some prices which had been out of line with their normal relationship to the general price level have recently come back more nearly into balance. It is true also that more nearly normal buyers' markets and competitive conditions have returned in various lines, but this is something which must be regarded as part of the process of "getting back to normal." It means that salesmanship, which has been pretty much neglected since 1941, must again be brought into play.

The fact is that the nation continues highly prosperous. We are on the alert against the hazard of a "boom and bust." There are great opportunities for business in the years immediately ahead. Our population is increasing steadily. American creative genius is continuing to develop new materials and new techniques and to produce new consumer goods, thereby maintaining an industrial frontier of the greatest promise.

The demand for these new products, and for improved types of many kinds of consumer goods, should replace any reduction in other demand that may follow the filling up of wartime shortages Such a replacement process, in fact, is already conspicuously under way.

The return of normal buyers' markets should give impetus to more efficient production methods and to new and more attractive

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*An address by Secretary Snyder before the National Sporting Goods Association, Atlantic City, N. J., Feb. 1, 1949.

We Have Reached Breaking Point in Government Spending!

By HON. FREDERIC R. COUDERT, JR.*
U. S. Member of Congress from New York

Republican House member, after defending Taft-Hartley Act and attacking Federal Government inroads on free economy, warns of drift toward statism. Says we are spending ourselves into bankruptcy and totalitarianism and people cannot stand further increase in taxation. Cites late President Roosevelt's warning against financial instability, and attacks reorganization of House Appropriations Committee as weakening its effectiveness.

It is impossible to speak of anything before the Pilgrims that will be more than a postscript to earlier observations of Pilgrims' sages. In three of Dr. Butler's last addresses his theme was the industrial, civil war menacing free institutions in the United States. He referred, of course, to the ever-swelling power of labor unions as a threat to the equilibrium under law so vital to survival of democracy. After his last labor speech in 1946, there was a fitting postscript in the form of the Taft-Hartley law, passed by an unjustly maligned Congress. Now, a brief two years later, a postscript appears in the offing—repeal or emasculation of that law. Such action would put the country back where it was in 1946, wholly at the mercy of such labor leaders as might choose to exercise their great power without regard to the public welfare. Surely we cannot have forgotten certain of the strikes which threatened the very life of the people of the country, as in coal, railroads and shipping! A sure way to destroy free government is to permit the existence of groups within the community strong enough to successfully defy government itself and to hold the community to ransom. The Taft-Hartley law was an honest attempt to bring organized labor fairly within the law, as our other citizens. If these organizations are again freed from all orderly restraints, it will be a sad day indeed for America.

Hon. F. Coudert, Jr.

Maintenance of orderly labor relations within the framework of fair and equitable laws is essential to the survival of a free democracy. No person or group must be allowed to rise above the law.

For my own part, I shall resist all attempts to weaken the Taft-Hartley law.

Failure to successfully integrate organized labor within the American democratic system of law is not the only way for Americans to lose their precious liberties—liberties which are so easily taken for granted. The radical changes which have taken place in the past three years in Britain should warn us against taking too much for granted.

Inroads on Free Economy

Superficially, at least, nationalization or major activities from steel-making to the practice of medicine does not look like free economy. And dressing bartenders in taverns in the livery of civil servants does not look like an extension of the liberties of the subject. Nor, I imagine, will it improve the taste of beer! While, of course, that nationalization is Britain's own problem, I certainly hope that example will not be contagious and agree with former Ambassador Gerard, speaking before the Pilgrims in 1948, when he stated that: "Nationalization can have no place in our economic vocabulary!" Nationalization, of course, means the end of economic freedom and the substitution of a totalitarian economy. I have always supposed that economic freedom was the very foundation of individual liberties which could not long live without it. Paper guarantees of liberties cannot be very convincing in the face of complete government control of the necessities of daily life. The power to deny a ration card is more persuasive than any constitutional guarantee of freedom of speech. I hope indeed that our own United States is not going to embark upon the primrose path that leads to statism. But we have in recent years moved far in that direction.

The American people, I am confident, would not knowingly surrender their liberties for the deceptively seductive mess of false security offered by totalitarianism. If the issue were squarely posed, there would be no doubt of the outcome. There would be instant and resounding repudiation.

Spending Ourselves Into Bankruptcy

There is, however, a very effective though indirect road to the same end. A people can unwittingly or recklessly spend themselves into bankruptcy and totalitarianism. There lies the danger to America.

No matter how worthy or appealing objectives may be, they cannot be attained by driving to the breaking point the dynamic free economy which has built this great country. No government economy can match in production a free economy like ours, but it can and invariably does suppress all personal liberty.

The United States is attempting to rebuild a shattered world and at the same time to rebuild a home establishment that has suffered from the neglect and postponements of war. Either assignment alone would be a large order. To attempt both at the same time without great restraint or too rapidly would be to court disaster. The survival of our essential liberties is dependent upon maintenance of a healthy, free economy. That demands restraint in public spending with its attendant inflation and taxation. Americans are in substantial agreement upon ultimate objec-

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*An address by Congressman Coudert at the Annual Luncheon of the Pilgrims of the United States, New York City, Jan. 23, 1949.

The Lull in Inflation

By THOMAS I. PARKINSON*
President, The Equitable Life Assurance Society of the U. S.

Asserting current emphasis on deflationary trends ignores real nature and cause of inflation, Mr. Parkinson holds inflationary factors, particularly in growing money supply, persists. Says danger also lies in enhanced turnover of money supply and in continued purchase of government bonds by Federal Reserve at pegged prices. Lays present inflation lull to people becoming price conscious and hopeful of lower prices.

During the last quarter of 1948 our postwar inflation showed some signs of slackening. Certainly, the prices of some commodities decreased a little compared with midsummer prices, and others rose only slightly. There appeared to be definite buyer resistance, though the final figures showed larger than expected retail trade during the holiday season.

T. I. Parkinson

These developments fitted nicely into the thinking of public officials and economists who have been warning that deflation is more to be feared than inflation. We have heard frequently from both sources that "the peak of the inflation is passed," and that therefore we must avoid fiscal and monetary policies that might bring about a recession.

The curious part of current emphasis on deflationary trends is that it ignores the real nature and cause of inflation. Inflation did not begin with high prices; inflation began with the great increase in our money supply which made available to the people of this country at the end of the war more than $150 billion of spendable money. That huge money supply was increased despite some reduction in the public debt until it passed $170 billion at the beginning of 1948.

During the early part of 1948 a Treasury surplus and the voluntary efforts of the bankers to restrain expansion of bank credit reduced that total money supply by $3 or $4 billion. But during the last months of the year the trend was again upward. While final figures are not yet available it is probable that the total money supply at the end of 1948 will again be in the neighborhood of $170 billion.

This means that while prices were being held or reduced during the last quarter of the year the total money supply and the total of personal incomes were again climbing upward. In other words, the inflation of the money supply has been and is continuing.

The situation with respect to prices and the lull in wage demands only illustrates what by now should be plain to all. Everybody who gives any consideration to the subject knows that inflation depends on two main factors—first, an increased or inflated money supply and second, a rapid turnover of that money supply.

Even a smaller money supply than that now enjoyed by the American people could produce

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*A statement by Mr. Parkinson released by Continental Press Syndicate, Brightwaters, N. Y.

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

The pace of industrial production for the country as a whole last week reflected a mild advance as a result of fractional increases in many industries. Manufacturing output as a consequence moderately surpassed the level of the comparable period one year ago.

Latest reports on continued claims for unemployment insurance in the week ended Jan. 8 show a rise of about 15% with initial claims reflecting an increase of approximately 22% for the same period.

For the month of November, 1948, one out of every 70 workers in manufacturing industries was laid off, according to the U. S. Department of Labor. This doubled the layoff rate of the like month in 1947.

Layoffs by manufacturers increased during November to 14 per thousand workers as against 12 per thousand in October, states a labor turnover report released by the Department's Bureau of Labor Statistics.

The total separation rate, the Bureau reveals, declined from 45 to 41 per thousand manufacturing workers. This was a level slightly below the rates prevailing in the preceding 10 months.

Hiring by manufacturing industries in November was at the lowest rate for any November in history, the Bureau of Labor Statistics study reported. In the October to November period the hiring rate dropped from 45 to 39 workers per thousand.

* * *

Wholesale prices for the week ended Jan. 25 were down 0.3%. This was the fifth consecutive week they had shown a decline.

At the end of the week the Bureau of Labor Statistics' index was 158.8% of the 1926 average. It was 2.1% below a month ago and 3.5% below the like week in 1948.

The Bureau said the drop was caused by lower prices for livestock, metals and grains.

Corn, barley and tallow were selling for less than OPA prices in June, 1946, the Bureau of Labor Statistics added. Hog and steer prices were at the lowest since OPA controls were removed in November, 1946.

Although the monthly prices had gone down for four straight months as of December, the Bureau said that it may be a few months before this drop is reflected in any change in the cost of living.

* * *

Although there was a seasonal rise in the rate of new business incorporations during December, the volume continued below that of a year ago for the twelfth straight month. New stock corporations chartered during December numbered 7,421, an increase of 15.7% over November's 6,413, but a drop of 26.7% from the December, 1947, figure of 10,126, according to Dun & Bradstreet, Inc.

With new incorporations showing consistent declines from the previous year during every month of 1948, the total for the entire year fell to 96,101, from 112,638 during the 12 months of 1947, or a drop of 14.7%. A decline of similar proportions occurred between the years 1947 and 1946. The 1948 aggregate of 96,101 company formations represented a decrease of 27.7% below the record number of 132,916 companies that were organized in 1946.

* * *

Despite unfavorable weather in many parts of the nation, total retail volume rose slightly in the period ended on Wednesday of last week. Aggregate dollar volume slightly exceeded that of the similar week a year ago and clearance sales and other promotional events were instrumental in stimulating consumer purchasing in many areas.

Total wholesale dollar volume remained near that of the preceding week, but dropped slightly below that of the comparable week last year. Spring bookings were made in a large volume and deliveries generally, were more prompt than a year ago. Collections were slightly slower than last year.

STEEL OUTPUT SCHEDULED AT 100.9% OF CAPACITY FOR CURRENT WEEK

The government's case against steel on capacity and output appears to be rapidly falling apart. Though Washington may not know it, the steel market is trending quietly toward a balance in supply and demand and too many months may not elapse before the evolution is complete, according to "The Iron Age," national metalworking weekly.

This does not mean that every one can get all the steel he wants in the next few months. It does mean, however, that within a few months there will be little difference between the steel market then and in times like 1936 to 1938. There were periods in those years when deliveries were as far behind as 22 weeks, but there was no furor for more capacity and more output, states this trade authority.

In the present case the momentum of the unprecedented output of steel—which for the third week has been at an annual rate of 97,000,000 ingot tons—is scaring some economists and chartists. Of course they scare easily. But when steel consumers are, for the first time since the war, talking about not taking some of their quotas, and when gray market steel is going begging, it looks as if a trend toward easier times is setting in.

This does not mean that the country is in for a big dip in steel output. For every cancellation this week, and for weeks to come, there will be many who will want the coveted space on the mills. And there are still parts of the country that think they are getting less steel than they need, the trade paper adds.

A close check by "The Iron Age" this week shows that the auto companies hope to continue their heavy buying of steel. But in the auto center there are some who are fed up with high cost conversion deals. Some steel users have forced the prices on conversion down. Others have withdrawn from this high-priced market. Others still need steel so much that they will be in the conversion market for awhile.

One of the main supports to the steel market as far as the future is concerned is the oil and gas industry and this week at

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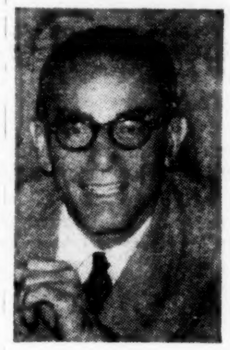
Observations . . . .

By A. WILFRED MAY

TRANS-OCEANIC CONFUSION

"I think that the difficulty is that instead of the word 'planning' the people who find fault with us when we talk about planning for economic purposes are thinking about controlled economy, not planned economy. The distinction is different, if you analyze it closely."—Harry S. Truman, President of the United States, in a talk before the National Planning Association, Feb. 1, 1949 A. D.

The above nonsense, pronounced by the Chief Executive of our great nation, supplies a front page "economic" maxim for this morning's newspaper readers. Headed by the caption "TRUMAN ADVOCATES PLANNED ECONOMY—HE BARS CONTROLLED SYSTEM AS TOTALITARIAN," it reduces to absurdity the polemics over the direction of our society. Unfortunately such confusion—wilful or merely ignorant—is not at all confined to the White House or to the United States. Strikingly attesting this was the address made by Geoffrey Crowther, editor of "The Economist" of London, last week before the Economic Club of New York—and particularly by the enthusiastic reception with which it was greeted by the huge attending audience of American businessmen. (The full text of Mr. Crowther's address may be found on page 8 of this issue of the "Chronicle.")



A. Wilfred May

This authoritative witness of Britain's nationalization experiments made the fundamental error of tieing his appraisal thereof to the factor of *workability* in lieu of *principle*. In past times the case for capitalism was grounded on its efficiency in contrast to the impractical idealism of socialism. More recently the converse premise has been followed in the controversy, namely, that while socialistic big government and authoritarianism may be more efficient than *laissez-faire* ("after all, Mussolini got the trains running on time"), capitalism offers the moral compensation of preserving liberty.

Now these two approaches are being compromised and muddled by the British Crowthers. On the one hand he discovers great doubts about the efficiency of labor, about the government's ability to run the coal mines and transport; but on the other hand, he is struck by the fact that nothing *looks* very different under government direction, and stresses his finding that to date there have been "no economic consequences at all" of the British nationalization schemes.

This confirms the characterization of the British as "people who will change anything except the appearance of things." Even though Sir Stafford Cripps may keep his promise not to repeat last year's capital levy in name, it will nevertheless be continued in effect. Through the country's income-tax rates which surely are entailing the expropriation of the capital of those citizens other than the 250 remaining "economic royalists" with more than a £5,000 annual net income.

Greasing the Track to Socialism

Likewise, the public's misunderstanding of obvious significant events here in the United States is greasing the track of our own unwitting gradualistic slide into socialism through the New Deal-isms of Hoover, Roosevelt, and Truman. Even the capitalist business and banking interests go along with this when they themselves get into trouble—as with our private coal operators' pleading with the government to take over and nationalize their mines in 1933. Motivated as they are by the tests of self-interest, the capitalist as well as the underprivileged do not offer any effective opposition to the inroads of collectivism and authoritarianism. Liberty and the other ideals thus merely constitute terms to rationalize their particular self-interest. Thus it follows that an audience of business leaders will applaud to the rafters the wishful-thinking words of a Crowther which soothe qualms about their immediate material self-interest.

This bland overlooking of the decisively basic evils of socialization, with the encroachments of bureaucratic government and its bribery of the electorate through strategic subsidization, perhaps accounts for the vacillating and inconsistent on-the-spot editorial attitude of even the "Economist" of London throughout the present Labor Government's career. The week after the announcement of Labor's victory at the polls in July 1945 that publication maintained that "the risk is not that the Labour party will change British society too much, but that it will change itself too little." A week later under the caption "Old Wine in Old Bottles" it worried that "Mr. Attlee has not after all gone in for boldness or for experiment. Both in its personnel and in its structure, his new government is conservative," and in reviewing the King's speech it concluded that it was "moderate and not an instalment of Red Revolution." But subsequently, after intermittent raising of qualms over the several successive nationalization steps, the "Economist," along with other wishfully-thinking appeasers, finally last November became frankly

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Factors in Trend of Interest Rates

By CLAUDE L. BENNER*

Vice-President, Continental American Life Insurance Company

Insurance executive, in analyzing trend of interest rates, holds, because of Federal Reserve Policy, no material upward change is likely, but, on contrary, should buisness activity tend downward, monetary authorities will again take positive steps to make money cheaper. Looks for present level of business in 1949, with higher government spending offsetting reduced consumer outlays. For long term outlook, however, foresees scarcity of world capital and trend toward higher levels of interest rates.

From the title of the subject "Supply and Demand and the Price of Money," assigned for this discussion, it would appear that those who arranged the program believe that the price of money is determined by the law of supply and demand. I cannot believe, however, that they are so naive as to believe that this price—the interest rate is the result of the forces of supply and demand working out in a free market. For never in our country's history, certainly never in peacetime, has the money market been subject to so many arbitrary controls as it has been during the recent past.

Claude L. Benner

Moreover, these controls have not all been operating in one direction. At one and the same time certain controls, such as increasing bank reserves, have been put into effect which tended to decrease the supply of money and raise interest rates, while at the very same time other controls, such as Federal Reserve support of the bond market, were instituted that increased the money supply and made for lower rates.

On the surface of things it would appear as though our monetary authorities did not know exactly just what they wanted to do — increase interest rates or lower them. It is possible, of course, that there might not have been complete unanimity of opinion among the various governmental agencies about the proper action to follow. From the statements made by the Board of Governors of the Federal Reserve System, we know that it wanted to restrict the excessive expansion of bank credit ever since the latter part of 1946 and it instituted various steps looking toward that end. But when it became apparent late in 1947 that such steps would lead to a rise in interest rates which would cause government bonds to decline in price, our monetary authorities became frightened at this prospect and, by their policy of supporting government bond prices, more or less nullified the restrictive effects of the actions which they had previously taken.

Trend of Interest Rates

I suppose it is inherent in a program such as this that the speaker be expected to tell you what he thinks the trend in the price of money is going to be in the days immediately ahead and to set forth the reasons for his belief. As much as I dislike to indulge in forecasting, in general, and as little faith as I have in anyone's ability, including my own, to do the job at all successfully, here is an instance where I have less hesitancy than usual to tell you what I think will be the trend interest rates for the coming year.

In the first place, it must be remembered that the present Administration is determined that the money market will be controlled and managed during the days ahead. It will not be a free market. In fact, in any discussion of interest rates today it must always be kept in mind that they are controlled by some government agency. They are not determined by the free play of the forces of supply and demand. This is the fact whether it is the rate on long-term bonds or on real estate mortgages. The agency controlling the rate on bonds is the Federal Reserve banks. Since mid-November of last year these institutions purchased nearly $12 billions of government bonds in order to keep their prices from going below par. In the case of mortgage loans, as you all know, the level of interest rates has been more or less established by the Veterans and the Federal Housing Administration.

Moreover, I think that it can be taken for granted that the present Administration is going to want to keep interest rates low as long as it can. Frankly, I think that in spite of our large Federal debt, it is a mistake to put so much emphasis upon the necessity of low interest rates. But at the moment, the trend of thinking in this connection is opposed to mine and you would do well to base all your calculations on the fact that the government in the foreseeable future will make every possible attempt to keep the general level of interest rates no higher than it is at the present time. There may be a little change in the pattern of interest rates between very short and long term paper but nothing of any great significance.

Assuming this to be true, there are only two fundamental questions on interest rates about which there can be much difference of opinion. The first is to determine what are the limits to the Government's control of the interest rate. The other is to decide what is the proper differential in interest rates that should exist at the present time among various classes of investments such as bonds, stocks and real estate mortgages.

Stripped down to its barest essentials, during the past year we have seen that the only way the Government can control the interest rate is for it to decide what rates it wants to support on the various issues of its bonds, and then have the Federal Reserve banks buy as many as may happen to be offered to it at this price. Without attemtping to explain how it works, it is a fact that such purchases by the Federal Reserve banks tend to increase the money supply of the nation. Other things being equal, an increase in money supply tends to make prices go up. It can be definitely and categorically stated, therefore, that the limits to which the government can control interest rates will depend upon the degree to which it is willing to increase the money supply of the nation and, consequently, endanger the price level. In other words, the danger of inflation is what the government runs when it supports the bond market at an interest rate lower than that which would be established by a free market.

In considering, therefore, whether or not interest rates will go somewhat higher over the immediate future, it seems to me that we should turn our attention to a consideration of the factors which will determine the movement of prices during this period of time. If one feels that there is any appreciable danger that prices will continue to go up and that the country may have further inflation, then I believe the public would not countenance central bank activities during the coming year, of the same kind of magnitude as took place in 1948 and which added fuel to the fires of inflation, merely to keep government bonds at par. The harm that would result from any appreciable further inflation is infinitely worse than any harm that might result from government bonds selling below par.

Technique of Cheap Money

It should be apparent after our experience in financing the war that there is nothing mysterious about the technique of cheap money and it also should be apparent what the limits of the government are if it attempts to make money cheap, should the economic forces of the nation be making for dearer money. The technique is nothing but an ever-creation of more and more bank reserves by the Federal Reserve banks with the result that an ever and ever larger increase takes place in bank deposits and bank cash, that the liquid resources of individuals become ever and ever larger, and with the result that the dangers of inflation become greater and greater. The extent to which the Federal Reserve banks can go, therefore, in supporting the prices of government bonds and in maintaining the present structure of low interest rates will, in the final analysis, depend upon how long they can continue to pump their credit into the money market and increase currency and bank deposits without bringing on an inflationary price rise.

It is doubtful if there is any one single factor which exercises a greater control over our whole economic activity than the money supply. The overall objective of any intelligent monetary policy should be to control the money supply in such a way as to make it neither redundant nor scarce. Under conditions of full employment and scarce raw materials such as have existed during the last three years, total production could be increased only very slowly, probably at a rate no higher than 2 or 3% annually. The Federal Reserve Index Number of Physical Production for the last two years seems to show this. If within such physical limitations, the supply of money is increased through substitution of bank credit for savings on such a scale as took place during the past three years, inflation is bound to result. No competent student of money, credit and prices denies it.

Dangers of Expanding Bank Credit

Bank credit is a dangerous substitute for a scarcity of captial in a period such as we have just gone through. No doubt, in a period of depression when there is a large number of unemployed, when commodities are abundant and when the economy is not running at full capacity, bank credit can be substituted for savings with little danger. It tends to add to the total money supply, increases demand for goods and has a tendency, other things being equal, to step up production, increase output and not disturb prices.

But when business is operating at full capacity, when there are no men unemployed, when com-

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*An address by Mr. Benner before the Mortgage Bankers Association of America, New York University, New York City, Jan. ", 1949.

From Washington Ahead of the News

By CARLISLE BARGERON

Paradoxically enough, with the cattle freezing and starving to death out in the Great Plains and the people not being able to get out of their doors, the Republicans got out to Omaha and back with a minimum of inconvenience. There would seem to be a touch of irony that such a situation should not be in reverse.

Carlisle Bargeron

Be that as it may, with the return of the bigwigs to Washington along with the Washington correspondents, considerable is being heard of a speech made out there by Governor Val Peterson of Nebraska, castigating the Republican Party and advising it to out-sell the New Deal.

The editor of a business magazine was discussing with me the other day the idea of an article by Senator George D. Aiken of Vermont, telling the Republican Party what to do to win. The "Saturday Evening Post" has just had an article by Senator Henry Cabot Lodge along the same lines. Undoubtedly there will be all sorts of offers from the editors to Governor Peterson to elaborate upon his ideas.

The thinking behind the Aiken article was that here is a Senator from a "rock-bound Republican State" . . . Never has it broken from its Republican moorings; it even stuck by Landon. Then where could you find a more authoritative Republican than a Senator who is always being reelected from that State?

It seems to me that the editors could render a much better service by clarifying the atmosphere rather than by encouraging this continuous propaganda to make the Republican Party over. A little examination will reveal that Aiken is a shining example of the anomalies of our two party system. He is a "Republican" only in the sense that the Republican label is traditionally the label to wear in Vermont to get elected. I've heard a lot about the granite conservatism of the Vermont folk but they are a "gimme" folk. There aren't but about half a million people up there. For years, Aiken's most successful issue has been his efforts to get them a TVA, hardly a conservative enterprise. His colleague, Flanders, a business man, unblushingly takes CIO support.

For years, the late George Norris ran as a Republican from Nebraska. He won in the Republican primaries, so that made him a Republican. It was there, however, that the resemblance ended. It was those agrarian sons of the wild jackass in the guise of Republicans who brought about the Republican wreckage in the 30's, a wreckage from which the party hasn't completely recovered. These men used the Republican machinery of their States because it was the machinery to use. Similarly, we find arch conservatives from New York City and the South running as Democrats when they have nothing in common with their New Deal brethren.

Governor Peterson and those others who would like to have the Republican Party do something to get the organized labor vote apparently do not realize what has taken place in this country in recent years. The CIO was created by the New Deal and has been nurtured by it. This so-called labor organization is not essentially that. It is a wing of the New Deal. Its leaders are in politics for politics sake, for power. They have come fairly to pull the AFL in bed with them.

It would be interesting to see just how those so-called Republican Liberals would go about getting this organized vote. They would have just as much chance of selling the horde of Bureaucrats on the idea that they would be better off by switching en bloc over to the Republican Party.

In the last Presidential campaign, these labor politicians had an issue in the Taft-Hartley bill. But what does not seem to be generally realized is that they would have an issue of some kind, they would have found justification for supporting Truman whether there was a Taft-Hartley bill or not. Truman was the New Deal nominee. They are a part of this conglomeration, just as dependent upon it for their continued political power, for their livelihoods, so to speak, as are the officeholders.

The Republicans can't get this organized vote regardless of what they do, any more than they can get the controlled vote of Manhattan, Jersey City or Chicago. And the last election showed they can win without it. They can't win without it and also the farm vote.

The labor politicians turned out their maximum strength and it was not enough in states like Pennsylvania, New Jersey and Michigan. It should be discounted in the Republicans' plans for the future.

There seems to be a widespread feeling among professional or office-seeking Republicans that there is quite a yearning in the country for a crowd calling themselves Republicans to take over the reins of government, regardless of whether they are actually Republicans, in the philosophical meaning of the term, or not. Unquestionably there is this feeling among those who want to get the New Dealers out in order that they can take their jobs.

But it should not be forgotten that there are still millions of people in this country who are not on the government payroll, and God permitting, have no intention of getting on it. These people are not concerned whether a Joe Doakes or a Doakes Joe is holding down a government job. They are not concerned about the personalities of the more than 2,000,000 jobholders.

Just why certain Republicans should think they will get popular support by being New Dealers is something difficult to understand.

The people are vitally concerned in whether a New Deal or a Republican philosophy is to prevail in Washington.

Tax Increases Both Harmful And Unnecessary

By MURRAY SHIELDS*
Vice-President, Bank of the Manhattan Company

Bank economist calls proposals for higher taxes downright destructive and blueprint for depression. Lists factors against new and additional tax levies, and holds government revenues ample for defense program and continuation of large scale foreign aid. Warns higher taxes, by contracting individual and corporate savings, can almost automatically put brakes on economic expansion, and further anti-business, anti-savings and anti-investment taxation can force nation into socialism.

A great debate is about to start on the subject of taxes, for Congress has been requested by the Administration and urged by several powerful labor organizations as well as others to make a number of far-reaching and highly significant changes in our tax structure. It is not too much to say that the action Congress takes with respect to these suggestions will profoundly affect the economic progress of the Nation for a long while to come. This is true because some of the measures suggested are downright destructive, others are little more than a blueprint for a depression and others reflect a lack of understanding of some of the basic economic problems with which the nation is faced.

Murray Shields

It has been suggested by one organization, for example, that about 25 to 30 million taxpayers be exempted from the tax rolls, that individual taxes on middle and high incomes be raised to or above wartime levels, that corporations be subject to stiff excess profits taxes and that special taxes be levied on undistributed corporation incomes. The program presented recently to the Congress by the President did not go so far as this but he did request that a total of $4 billion be raised by higher corporation taxes and by higher taxes on the upper and middle income tax brackets, and that Social Security tax revenues be raised substantially.

Factors Against Tax Increase

In my view it is time for everyone who has some understanding of the dangers involved in such proposals to speak out about them and I earnestly hope that when Congress considers the tax program it will make allowance for a number of factors to which it is prudent and wise that any tax program be adopted. Among the more important of these are:

(1) An increase in tax revenues is not necessary to maintain the cash budget in approximate balance, the surplus—on a cash rather than a budgetary basis—being estimated by competent students at $2.8 billion for the current fiscal year and $1.5 billion for fiscal year 1950. These estimates, it should be emphasized, allow for a substantial increase in the defense program and for a continuation of large-scale foreign aid. The tax burden of about $55 billion—including state and local governments as well as the Federal Government—is already so heavy that it should be increased only if the need is obvious and urgent.

(2) We are so close to the point of diminishing returns in peacetime taxation that it is not by any means a foregone conclusion that if tax rates were to be increased tax revenues would actually rise. With tax rates as high as they are, any material increase in them is likely to have seriously depressive effects on the willingness of businesses and individuals to continue present levels of expenditures for plant and equipment and for residential construction. And any reduction in such outlays would probably have a magnified effect on national income and, therefore, on the base against which taxes are levied. A reduction in tax revenues would be a high price to pay for a punitive and unnecessary increase in tax rates.

(3) The threat that corporations and individuals will not know what their tax bill for the early months of 1949 will be until Congress has gotten around to actual passage of a bill acceptable to the President—which might not be until mid-year—can be seriously disruptive, for under such conditions sound financial housekeeping becomes almost impossible. Thus it is urgently necessary that taxpayers be reassured that they will not be subject to a retroactive tax.

(4) There is a risk that if large tax increases are adopted as part of an anti-inflation program they will be "too much and too late" and turn out to have violently deflationary effects. There is much evidence to support the view that the forces of inflation have spent themselves at least temporarily, and it may well be that the tide is turning from inflation to deflation, in which event a deliberately punitive tax increase could have devastating effects. Congress will be well advised to go slowly in increasing taxes until the position of the economy with respect to inflation or deflation is clearer than it is today.

(5) Taxes to provide funds for a defense-foreign aid program of such size as to require diversion of material and labor resources from peacetime use should be designed to force a reduction in consumption rather than in business investment in new or improved industrial capacity. If we are to remain economically strong, which is the indispensable basis for a high military potential, then we should at all costs avoid taxation which reduces the amounts of undistributed earnings available for use in expanding plant and equipment or which cuts back savings by individuals in the high-savings brackets. A forced contraction in individual and corporate savings can almost automatically put the brakes on economic expansion. Thus the present would appear not to be an appropriate time to increase the tax burden on investors or on business indirectly. This is a matter of the greatest importance, for "a squeeze on profits" such as we would have if taxes on corporations were increased at a time when labor forces another round of wage increases and when competitive conditions make it impossible for business to pass the increased costs on to the con-

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*An address by Mr. Shields before the Annual Forum of The Association of Cotton Textile Merchants of New York, New York City, Jan. 28, 1949.

Our Banks and a Free Gold Market

By JOSEPH STAGG LAWRENCE*
Vice-President, Empire Trust Company, New York

Asserting independence of banks has suffered because of abandonment of the gold standard, economist points out bulk of bank assets today represent government borrowing, and this means banks must deal with a debtor that has dominant power over them. Foresees possibility of further government borrowing, with banks forced to subscribe, and recommends as check on fiscal extravagance gradual restoration of gold standard. Favors intermediate free gold market, while Treasury withholds its gold from circulation.

In 1933 this country abandoned the gold standard and the Federal Government repudiated its obligations payable in gold. In the interval the currency of this country has depreciated and the independence of our banks has suffered. The first part of this statement, namely, that the currency has depreciated, is self-evident and beyond dispute. The nominal value of the dollar in terms of gold is only 59% of what it was before 1933. Its purchasing power, measured by the B.L.S. Cost of Living Index, shows a decline of 43% from its 1935-39 level.

Jos. Stagg Lawrence

In view of the great emphasis placed upon inflation and the spectacular if misleading efforts of the government to check it, it is not necessary for me to labor the point. The dollar we have today is a different dollar, a smaller dollar in purchasing power, a more dishonest dollar in terms of its redeemability, than the dollar we had prior to 1933.

However, the other statement that there has been a deterioration in the position of our banks is less evident. Let me explain.

On the surface the change which has taken place in our banking picture seems to warrant a precisely contrary conclusion, namely, that the banking position today is vastly superior to what it was prior to 1933.

This is based on the fact that we have approximately half as many banks with more business and more certain earning power than we had a generation ago.

It is based on the more liquid position of our banks. A major fraction of their assets—their holdings of government securities—is convertible into cash almost at the will of the bank and in any amount.

Finally, the FDIC stands behind the banks with its guarantee of deposits up to $5,000, assuring against the possibility of any material loss on the part of depositors. How, therefore, do I derive my statement that the position of our banks is less favorable than in pre-1933 days?

Bulk of Bank Assets Are Loans to Government

Let me illustrate by going back 25 years to 1924 and looking at the position of the average reporting bank. On the asset side of its balance sheet would be found loans and discounts amounting to 70% of its total loans and investments. Its U. S. securities would account for a little more than 13% of the total, and other securities for approximately 17%.

Here was a bank whose assets rested largely on loans to individuals and corporations, secured by valuable collateral, tangible assets and the earning power of the borrower. The same was certainly true of the item called "other securities." Only to the extent that such a bank held U. S. securities accounting for 13% of its total loan and invested position did it have an asset whose final value depended upon the paying ability and integrity of a single client, namely, Uncle Sam.

Looking at this same group of banks today, we find that the proportion of loans and discounts in the total of loans and investments has been cut in two, representing today only 35% of the total compared to 70% in 1924. Other securities account for a little more than 8%, likewise approximately half of the 17% which this item represented in the earlier year. The I O U's of its principal client, the government of the United States, today account for 56% of its total loans and investments, compared to 13½% in 1924. In other words, this one dominant borrower has a relative position in the bank statement today four times as important as it was 25 years ago.

You say: "How does this spell deterioration?" In the first place, let me admit that my word deterioration must be qualified. It must be qualified to the extent that liquidity in and of itself constitutes an important virtue in the position of a bank. I have no disposition to minimize the importance of this quality. As banks we must be able to meet the concurrent potential mass demand of our clients for cash. The law places no limit upon our creditors when they ask us to pay off. In a strictly technical sense, the item of U. S. securities in our portfolios does assure us, provided present conditions continue, the ability to meet the demands of our own creditors.

Every good banker, however, should look under the surface and search for the true meaning of the statement which his accountants give him. Actually that 56% of U. S. securities which the average bank now holds represents the I O U's of a borrower who has no earning power within the meaning of that term as applied to other clients. His ability to pay off depends, first, on a capacity to tax the people of this country and, second, on his technical ability to multiply indefinitely the paper tokens which by law are tender for all debts. Actually the money which these I O U's represent has already been spent by the borrower and spent almost entirely for unproductive purposes. In a sense we have here the paper of a client that represents dead horses.

Dominant Debtor Has Power Over Banks

This has disturbing implications. It means there is no possibility of liquidating the assets of this borrower in order to make his I O U's good in terms of real values. It means also that we are dealing with a dominant debtor who has us in his power. It is beside the point to retort that this borrower will never abuse his power. The fact is that governments have done so repeatedly in other parts of the world. It is the part of elementary prudence to recognize that circumstances may develop in this country under which the government may be forced, or thinks it is being forced, to do likewise.

Let me spell this out. During the past summer a controversy raged between one insurance executive on one side and almost all bankers and other insurance executives on the other regarding responsibility for inflation. This vigorous protagonist of his own theories alleged that inflation in this country was due to an increase in the supply of money and that this increase was due largely to expansion of bank credit, to an inflow of gold, and to the support of bond prices by the Federal Reserve Banks.

It is not my purpose here to analyze the merits of this controversy. I wish only to point out that at the height of this quarrel and largely as a result of it, one important banking publication suggested that the sale of government bonds was strongly affected with the public interest, that the Treasurer of the United States should be given the power to control the bond portfolios of banks and insurance companies. In other words, this editorial spokesman suggested a limitation upon the right of banks and insurance companies to sell their government bonds whenever and however they pleased.

I would like also to call attention to the Federal Reserve Board's annual report for 1945. In this report Marriner Eccles proposed secondary reserves for member banks whose composition would rest within the discretion of the Federal Reserve Board. He made other proposals, the net effect of which would place the control of a bank's bond portfolio in the hands of the Federal Reserve Board.

Dangers of Increasing Federal Budget

Further probing of the future yields disturbing possibilities. The President has just submitted a budget—an open end budget, if you please—for $42 billion. The welfare items in this budget, accounting for only 6% of the total, by themselves almost equal the average total outlay of the Federal Government during the '20's. These welfare items, plus the so-

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*An address by Mr. Lawrence at the Annual Mid-Winter Banquet of the Connecticut Bankers Association, New Haven, Conn., Jan. 27, 1949.

Current Asset Replacement versus Book Values Highlight Cheapness of Common Stocks

By H. WILLIAM KNODEL
Lionel D. Edie & Co., Inc.

Market economist maintains sharp rise in construction costs and use of "Lifo" for inventory accounting are causing great understatement of assets, which he calculates at 50% since prewar in the case of companies comprising the Dow-Jones Average. Asserts this overstates currently reported earnings, and will cause later rise in equity prices to reflect much higher asset replacement values.

The subject of present day replacement value of industrial company assets is receiving increasing attention. The sharp rise in construction costs since the prewar period has obviously made the replacement cost of plant and equipment much higher than the original cost at which they are carried on the balance sheets of companies. To a lesser extent, the spreading use of the "Lifo" method (last-in-first-out) of accounting for inventories also contributes to the understatement of assets. If allowance were made for these two factors, net replacement value of the assets would be far above that actually reported. This in turn would lift the net replacement book value of the common stocks of most companies far above the actually reported book values. In the case of the 30 Dow-Jones industrial stock average, the net replacement book value is estimated at close to 305, which compares with the reported book value at the end of 1948 of around 150.

H. William Knodel

To the security analyst, the subject is important for two reasons. First, reported current earnings are overstated because of inadequate depreciation allowances; and second, over the longer term, the much higher net replacement value of assets should tend to be reflected in stock values. Since depreciation charges are usually based on original cost, current provisions made are far too small on the plant and equipment previously built at much lower costs, in order to cover the replacement of these assets at the current price levels. A few conservative managements are meeting the situation by setting up a special reserve out of net earnings to take care of these higher current replacement costs, but this is not generally the case.

The problem has its origin in the phenomenon of rising costs. According to an average of seven well-known construction indexes (American Appraisal, Associated General, Aberthaw, Austin, Fruion Colnan, Fuller, and Turner), costs advanced steadily from the 1935-39 prewar period through 1948 with a total rise of 108%. Because of this, all plant and equipment installed previous to 1948 now has a much higher replacement value.

At some point the rise in construction costs will culminate and a correction ensue. This development will, of course, carry the theoretical replacement cost to a level substantially lower than it would be at the peak. During and immediately after World War I the average of seven construction indexes advanced from 100 in 1913 to a peak of 242 for 1920, subsequently falling to 192 for 1921 and to a low of 178 for 1922. Thereafter, it recovered to 202 for 1923, which level was substantially maintained over the next several years. Thus, after World War I, construction costs experienced a correction of about 17%, from the peak annual level, and stabilized at slightly over 100% above the prewar costs.

Present Replacement of Book Values

To calculate the net replacement book value of the 30 Dow Jones industrial average at the 1948 price and cost level, let us first examine some significant changes which have occurred in the financial setup since 1939. Working from the financial state-

(Continued on page 35)

The Economic Consequences of British Socialism

By GEOFFREY CROWTHER*
Editor "The Economist" of London

Prominent British editor and publicist traces course of the eight nationalization schemes introduced. Reports no evidence of employees' greater willingness to serve government than private employer, citing continuing absenteeism and disputes in coal-mining, with slightly improved output being due to mechanization. Maintains there is little significance in who owns industry, but in how well it is run, and each case must be judged on its merits. Minimizes net economic consequences to date.

The subject on which you have invited me to speak to you is "The Economic Consequences of British Socialism." Now "Socialism" is not an exact term; different people often use it in very, very different meanings. In particular, there is a broad definition and a narrow definition of the term. Treated broadly, socialism can be taken to cover a great many forms of intervention by the State or by labor organizations, with free economic processes. What these interventions—whether they be public ownership of industry, or government regulations, or labor laws or labor contracts—have in common, and what entitles them to be grouped under the Socialist banner, is that they are all advocated, by those who believe in them, on the score that they are necessary to advance social welfare or to secure social justice. Socialism, on this broad definition, is an order of thought that stands in revolt against the purely economic conception of industry and commerce that ruled in the last century, the economic conception that the purpose of industry was to turn the factors of production—land, labor and capital—into finished products with the maximum economic efficiency and the minimum economic loss. These are long words and long phrases. Perhaps I can more clearly identify what I mean by the broader definition of Socialism by saying that I use it to cover all the doctrines of the Left—as it has come to be known — as distinct from the Right.

Geoffrey Crowther

But there is also a narrower definition of Socialism in which it is exclusively identified with the ownership of industry by the State. "Nationalization of all the means of production, distribution and exchange" is the classical expression of this doctrine; it was the historic slogan of the British Labor Party in its years of propaganda. Indeed, it still is the Party's slogan in its years of power, in the sense that it has never been abandoned. I do not doubt that it was this narrower definition of Socialism that you chiefly had in mind in suggesting my subject tonight, since it is on this narrower plane that we have been having such spectacular experimentation in Great Britain in the past three and a half years. It would be a poor return on my part for the hospitality you have shown me if I did not do my best to answer the question you have set me: what have been the economic consequences of the British nationalization schemes? But when I have done so, I hope you will allow me to go a little further and to argue that this particular doctrine of the State ownership of industry is only a corner —and not in my view the most important corner — of a much wider tendency of our time, the economic consequences of which are by no means confined to the eastern shores of the North Atlantic Ocean.

Eight Nationalization Schemes

Since the Labor Government took office in the summer of 1945, eight nationalization schemes have been introduced into Parliament. Of these eight, three represent the purchase by the State of enterprises of a special kind already in the hands of one concern, or a very small number of concerns. One of these is the Bank of England, and I do not think we need spend any time this evening disputing the right of the State to own its bank of issue if it chooses to do so. The nationalization of the Bank of England, so far as I know, has had no effect whatever on the way in which the Bank conducts its business. A new Governor is to take office in a few weeks' time. He has been chosen, as the Governors of the Bank always have been, by his colleagues on the Court of Directors, for his personal qualities of technical competence, and if the agreement of the Government was on this

(Continued on page 42)

*An address by Mr. Crowther before Economic Club of New York Jan. 26, 1949.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Airlines—Analysis of outlook—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Also available are analyses of **American Potash & Chemical Corp., Bendix Aviation Corp., Greyhound Corp., Railroad Income Mortgage Bonds, Southern Railway Co.,** and **Texas Eastern Transmission Corp.,** and a leaflet of current **Railroad** developments.

Airlines—Analysis—William R. Staats Co., 640 South Spring Street, Los Angeles 14, Calif.

Airlines — Discussion of speculative appeal with brief data on **American Airlines, Northwest Airlines** and **Eastern Airlines.**—Lawrence Turnure & Co.-Blyth & Bonner, 50 Broadway, New York 4, N. Y.

Banks — Year-end comparative analysis of a group of the country's leading banks—Blyth & Co., Inc., 14 Wall Street, New York 5, N. Y.

Leading Banks & Trust Companies of Northern New Jersey—Semi-annual comparative study—Parker and Weissenborn, Inc., 24 Commerce Street, Newark, N. J.

New York Banks & Trust Cos.—Comparative figures as of Dec. 31, 1948 on leading New York City banks and trust companies—New York Hanseatic Corporation, 120 Broadway, New York 5, N. Y.

New York City Banks—Breakdowns of government bond portfolios and sources of growth income 1948 on 19 New York City Bank Stocks — Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Oils — Discussion of "What's Wrong with the Oils"—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Outlook—Discussion of market possibilities in "Stern Facts and Figures"—Stern & Co., 25 Broad Street, New York 4, N. Y.

In the same issue is a brief analysis of **Southern Natural Gas.**

Public vs U. S. Steel Directors—Discussion—Jacques Coe & Co., 39 Broadway, New York 6, N. Y.

Public Utilities — Discussion of current situation — Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Railroads — Annual review and forecast—Smith Barney & Co., 14 Wall Street, New York 5, N. Y.

Also available is a bulletin discussing the question of whether railroads can earn fixed charges in the event of a traffic decline, and a circular on **Wheeling & Lake Erie Railway.**

Tulsa Banks—Five-year analysis — Evan L. Davis, Kennedy Building, Tulsa, Okla.

Volatility in 1949—Comparative figures on open and mutual fund shares — Arthur Wiesenberger & Company, 61 Broadway, New York 6, N. Y.

Western Canada Oil Industry—Data—Charles King & Co., 61 Broadway, New York 6, N. Y.

* * *

Amalgamated Sugar Company—New analysis—Edward L. Burton & Company, 160 South Main Street, Salt Lake City 1, Utah.

Bell Telephone Company of Canada—Circular—Milner, Ross & Co., 330 Bay Street, Toronto 1, Ont., Canada.

Coral Gables, Fla. Tax Participation Notes — Memorandum — Buckley Brothers, 1420 Walnut Street, Philadelphia 2, Pa.

Durez Plastics & Chemicals, Inc.—Circular—William A. Fuller & Co., 209 South La Salle Street, Chicago 4, Ill.

Ft. Lauderdale, Fla. 4% municipal recreation revenue bonds (new issue) — Circular — Municipal Department, Allen & Co., 30 Broad Street, New York 4, N. Y.

Kentucky Utilities Company—Analysis—Doyle, O'Connor & Co., 135 South La Salle Street, Chicago 3, Ill.

Kingsburg Cotton Oil — Card memorandum — Bennett, Spanier & Co., Inc., 105 South La Salle Street, Chicago 3, Ill.

Also available is a memorandum on **Portsmouth Steel.**

Northern Pacific — Analysis of the "junior" bonds—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available are leaflets on **Brooklyn Union Gas,** and **U. S. Steel.**

Paramount Pictures, Inc.—Analysis—E. F. Hutton & Company, 61 Broadway, New York 6, N. Y.

Republic of Italy External Dollar Bonds—Circular—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

Also available is a circular on external dollar bonds of the **Republic of Mexico.**

South Jersey Gas — Memorandum — Newburger & Co., 1342 Walnut Street, Philadelphia 7, Pa.

Strawbridge & Clothier—Memorandum—H. M. Byllesby & Co., Stock Exchange Building, Philadelphia 2, Pa.

Also available are memoranda on **John B. Stetson** and **Warner Company.**

Victor Fuel Co. — Descriptive literature—George Birkins Company, 40 Exchange Place, New York 5, N. Y.

J. F. Reilly & Co. Opens in New York

John F. Reilly and Harold M. Masius, both members of the New York Stock Exchange, announce the formation of J. F. Reilly & Co. with offices at 11 Wall Street, New York City.

John F. Reilly

Mr. Reilly has recently been doing business as an individual floor broker; prior thereto he was a partner in Marx & Co. and conducted his own investment business. Mr. Masius has been active as an individual floor broker; in the past he was a partner in Skall, Joseph & Miller.

Formation of the new firm was previously reported in the Financial Chronicle of Jan. 27.

Will Western Europe Have Self-Sufficiency in 1952?

By PAUL EINZIG

Dr. Einzig, pointing out indications point to continued lack of self-sufficiency in 1952, contends pressure from Washington to combat complacency might prove salutary and would strengthen Marshall Plan nations in reaching unpopular decisions at home. Sees tendency of too much complacency in Western Europe, especially in Britain.

LONDON, ENGLAND—Will Western Europe be able to achieve self-sufficiency by 1952? That question will occupy a prominent place in the minds of European and American statesmen and experts during the next few weeks. It will be discussed by Congress, and is likely to influence the attitude of Congress towards continuation of Marshall aid. Judging by the interim report published by the O. E. E. C. in Paris, the answer is in the negative. In 1952 Western Europe as a whole is expected to have a substantial dollar deficit, even though the size of the deficit is expected to become materially reduced during the next three years. The response of Congress to this finding of the interim report is awaited with some anxiety in Europe where it is feared that the Administration will be forced to bring pressure to bear on the O. E. E. C. to adjust the plans so as to ensure that self-sufficiency is reached by 1952. What is more, it is feared that dissatisfaction with the effort of Western Europe to put itself on a sound basis may strengthen Congressional opposition to the Marshall Plan.

Dr. Paul Einzig

Beyond doubt, a little pressure from Washington on Western Europe might prove to be salutary. It would strengthen the hands of the governments to reach unpopular decisions at home. Several countries have adopted too ambitious capital investment plans, to the detriment of their prospects of self-sufficiency in the not too distant future. Also their proposed imports of consumers' goods fail to take adequate account of the self-sufficiency drive. There is fair scope for scaling down some of the import programs embodied in the interim report. If the E. C. A. insists on it the governments concerned must comply. How the balance of payments will work out in practice remains to be seen. But surely it is most unsatisfactory if the gap is not meant to be filled even on paper.

There is a tendency towards undue complacency in Western Europe, especially in Britain. Hitherto British Government publicity pursued the dual aim of making the British workers realize the gravity of the situation in order to induce them to work harder and claiming credit for the progress achieved. With the approaching general election the tendency is to concentrated on the second of these two aims. Ministerial speeches are inclined to be catalogs of achievements for which credit is claimed, and Conservatives are sharply attacked for trying to minimize these achievements. There is a danger that these boasts will tend to encourage a slackening of the national effort. Already a number of labor unions have put forward wage claims which, if granted, will raise the cost of production materially, to the detriment of the export drive. Moreover, the additional wages will increase internal consumption, and the volume of exportable surplus will decline. The government seems to be helpless in face of the wages demands. A reminder from Washington that the purpose of Marshall aid is to enable Britain to achieve self-sufficiency and not to satisfy pressure in favor of an immediate increase of the standard of living, might serve a useful purpose.

Likewise, a stern note from Washington would be a blessing in disguise as far as France and other continental countries are concerned. There the main trouble is that too much has to be imported because the government is unable to lay hands on food produced inland. Rations are too small and are not regularly distributed, so that everybody depends on the black market, which is the main cause of the industrial and social unrest. The root of the trouble is distrust in the national currency, which is due in part to the wrong level of the parity and the wrong method of currency stabilization, and in part to the budgetary deficit. To a large degree the remedy lies in the hands of the governments and parliaments concerned, but unpopular measures would be accepted more willingly if the American authorities insist on them. There is ample scope for constructive and perfectly justifiable intervention in these spheres on the part of Congress and Administration.

An intensification of national efforts could go a long way towards improving the prospects for balanced trade by 1952. Much depends, of course, on unforeseeable factors. Trade with Eastern Europe is one of the most important of these factors. During recent months a number of trade agreements have been concluded between countries on both sides of the Iron Curtain; prominent amongst them is the recently concluded British-Polish Agreement. Possibly these pacts may cause resentment in the United States. They are, however, essential if Western Europe is to achieve self-sufficiency. Before the war the food and raw material requirements of Western Europe was largely met out of the resources of Eastern Europe, against payment in manufactures. In the absence of food and raw material imports from Eastern Europe, the countries west of the Iron Curtain will have to cover their requirements largely from the Western Hemisphere. They may not find it easy to sell there the manufactures for which Eastern Europe would be the natural market; hence the perennial deficit. To remedy this state of affairs the revival of trade across the Iron Curtain is essential. Needless to say, the export of war material to Soviet Russia and the group of countries controlled by Soviet Russia would be contrary to the foreign policy of the United States and of the Western European governments. But since they too need strategic materials which can be supplied by Eastern Europe there is scope for departures from the principle of a ban on war material exports, on a strict basis of reciprocity. The choice from an American point of view rests between tolerating a certain amount of such trade or vetoing it at the cost of covering the chronic deficiency of the Western European balances of payments even after 1952.

Outlook for Home Building

By WILSON WRIGHT*

Economist, Armstrong Cork Company

Assuming volume of business activity will be determined by number of people who are willing and able to purchase construction, Mr. Wright estimates 600,000 dwelling units a year will be required to shelter additions to population and still more, if new structures are to be built in place of existing ones. Holds, however, country now possesses enough dwelling units in building and in prospect for new residents, and it is therefore reasonable to expect lower level of privately-financed construction during 1949.

The several conclusions which I intend to offer for your consideration probably will be most properly introduced by stating certain of my preconceptions. Buildings are neither produced nor purchased irrespective of the general economic situation. The producers of building materials, the contractors, and the purchasers of construction do not make their decisions unaffected by a wide variety of considerations which are not peculiar to the market for buildings. Consequently, conclusions concerning the outlook for building must be developed from a comprehensive estimate of the economic situation.

Wilson Wright

Another of my preconceptions is that we have been living in a period which may most properly be called a postwar boom rather than a period of prosperity. The origins of this boom are to be found in both the disturbance of production and consumption during the war years and to the dilution of the money supply as a result of wartime finance. These are not the origins of a period of prosperity nor are these the origins of a period of stability in economic relationships. Because of these, among other ideas, I think it is necessary to assume that the current volume of production and many of the relationships which may be observed between different elements of the economy are unstable.

Another concept which I wish to recognize is that we are in the process of altering the organization of our economy. We are rapidly changing our culture, changing our ideas concerning the proper and desirable relationship between individual production and remuneration, and changing the rules by which individuals are guided in the performance of their economic functions. Because we are making these changes, I suggest that our experience during periods when business activity is reduced will be somewhat different from that which would be expected from a study of experience in the past. We already have lived through several unique developments. Among these I may mention the attainment of a peak in equity prices about 30 months ago—30 months during which corporate sales and earnings have been substantially increased. A second unique characteristic of the current period is the low level of politically established interest rates at a historically high level of production and prices. A third matter for consideration is the fact that the postwar boom has been prolonged for at least 40 months since the end of active hostilities in comparison with less than half that period after November, 1918. In these and other important respects the current boom is much different from that which might be expected from a study of business cycles and postwar periods in the past. For these among other reasons, I think we are warranted in assuming that developments during a period of recession will be different in important respects from those which have been experienced after previous peaks in activity.

The fourth of my preconceptions is extremely important in connection with the outlook for building. In our economy a majority of the population is at liberty to expand or defer some part of their expenditure for either investment or consumption at practically any time. Our ability to defer expenditure for consumption or investment is possessed because so many persons live on an economic scale much higher than that necessary for mere subsistence alone. The ability to defer expenditure is an attribute of the people of any economy where what we call a high scale of living has been developed. Consequently, the economy in which they live always may be considered as being unstable. I bring this matter to your attention because it is a circumstance which the proponents of a planned economy and many of the large number of persons who restrict themselves to what is sometimes called the Keynesian method of analysis really never have been willing to recognize.

I am assuming that we are interested in what various persons performing different functions will do about using, producing and purchasing buildings. Consequently, their abilities and expectations will be the important criteria to be examined. Employing the broadest terms, we may assume that the volume of building activity will be determined by the number of people who are willing and able to purchase construction. Following this line of thought, it is appropriate to begin with an appraisal of the probable changes to be made in the number of new families formed, because new families are the units of population which use dwellings. Following this, it will be desirable to estimate the apparent supply of residential building and to examine the use which is being made of our inventory of this kind of construction. My final step will be to appraise what potential purchasers of residential construction probably will be willing and able to do about the purchase of buildings.

New Family Formation

New family formation was brought to a high level in 1947, when a little more than a million new families were added to the total. This high level may be compared with the increment of 750,000 thousand families in 1941. But, in 1948, new family formation was reduced by approximately 20%, and, in 1949, the annual reduction apparently will be more than 30%. Probably the average annual level of new family formation in subsequent years will be 500,000 to 600,000 per annum. Possibly a figure of 575,000 may be used in computations for which figures are required. These statistics indicate that a peak in new family formation was experienced more than a year ago and that new family formation for an indefinite period of time will be about half of that experienced during the peak and about 15% higher than the average level experienced during the 1930's, or about the same as family formation in the period 1920-29.

My next subject is the current supply of dwelling units. At the very beginning of my comments I wish to warn you concerning the kind of statistics which we are obliged to use. The collection of original data concerning the construction of all kinds of residential buildings in all parts of the country is extremely expensive. Because we never have been willing to pay for the collection of complete information of this kind, the statistics available always should be treated as rough approximations rather than as accurate measurements. With this note of caution we may begin.

From available data it may be computed that approximately five new dwellings of conventional type were built in the non-farm areas of the country for every four new families during the decade ended in 1929. During this period we built to satisfy a demand for residential construction which was deferred during the previous war. But, in addition, we also built a substantial num-

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*Part of an address by Mr. Wright at Conference of Mortgage Bankers Association, New York City, Jan. 26, 1949.

Pennsylvania Brevities

The Pennsylvania Railroad and Wabash Railroad on Jan. 26 filed an application with the Interstate Commerce Commission for authority to acquire the outstanding common stock of the Detroit, Toledo & Ironton Railroad from Pennroad Corp.

The application discloses the Pennsylvania RR. will acquire 200,000 shares of DTI common stock at $105.50 a share, or a total cost of $21,100,000, through its wholly owned subsidiary, The Pennsylvania Co.

Wabash will buy 45,329 shares of DTI common at the same price, or a total cost of $4,782,209.

In a separate application, The Pennsylvania Co. asked the ICC for authority to issue $16,000,000 collateral trust sinking fund bonds, to be dated Jan. 1, 1949, and maturing Jan. 1, 1969. Bonds or proceeds will be used in part payment for DTI stock.

A total of $5,100,000 balance of the cost of the 200,000 shares of DTI common, will be met in cash by The Pennsylvania Co.

The Pennsylvania Co. also filed an application for authority to acquire from Pennroad Corp. 5,100 shares of Springfield Suburban RR. at $39.31 a share. Springfield Suburban is a switching railroad operating in adjacent territory, with over half of its carload traffic interchanged with DTI.

The DTI, which extends from Detroit to Ironton, O., operates 463 miles of first main track. Between 60 and 70% of its freight traffic is coal, coke, iron and steel products, petroleum products, soda products and automobiles and parts. More than 40% of DTI's interchange traffic is with the Pennsylvania, Wabash and Ann Arbor railroads, the latter a subsidiary of Wabash.

The applicants argue that they have substantial investments in the Detroit area, and are dependent upon the DTI for a large volume of the traffic they receive.

* * *

The City of Philadelphia announced Feb 1 that it would receive bids on Feb. 24 on bond issues totaling $44,200,000. The bonds will be dated March 1, 1949, and will come due on Jan. 1, 1950 to 1999.

* * *

The directors of West Penn Power Co., an electric operating subsidiary of the West Penn Electric Co. on January 26 approved a financing plan for its 1949 construction program.

The present plan is to open bids for $10,000,000 of new first mortgage bonds and $5,000,000 of new preferred stock on or about March 8.

Approximately $2,000,000 is to be obtained by the sale of additional common to the West Penn Electric Co. and to holders of outstanding common.

* * *

When the public offering of Affiliated Gas Equipment, Inc., preferred and common shares was announced Jan. 13 Philadelphia and Pittsburgh banking houses were well represented, including Buckley Securities Corp.

* * *

The Pennroad Corp. reports net income (excluding gains or loss on investments) for 1948 of $2,718,000, compared with $2,126,891 for 1947; and the net realized gains over book cost on sales of securities for 1948 of $496,000, compared with $144,930 for 1947. The aggregate earnings of $3,214,000 are approximately 64 cents a share on the 5,000,000 shares outstanding Dec. 31, 1948, compared with 44.8 cents for 1947. The estimated net asset value per share of Common Stock outstanding Dec. 31, 1948, is approximately $11.70, compared with $10.27 Dec. 31, 1947, and $11.37 June 30, 1948.

* * *

The Bell Telephone Co. of Pa. has an application pending before the Pennsylvania Public Utility Commission for permission to issue and sell $25,000,000 in 25-year debenture bonds, due April 15, 1974.

The proceeds of the debentures will be used to retire notes issued to Bell by its parent, American Telephone & Telegraph Co., to cover advances for financing an expansion program.

Graham, Parsons & Co., Stroud & Co., Inc., Yarnall & Co., Harrison & Co., Boenning & Co., De Haven & Townsend, Crouter & Bodine, Dixon & Co., Janney & Co., W. H. Newbold's Son & Co., Sherdian Bogan Paul & Co., Inc., all of Philadelphia and Glover & MacGregor, Inc. and McJunkin, Patton & Co., both of Pittsburgh, were among the underwriters who, on Jan. 17, offered common stock of Southern Indiana Gas & Electric Co. at $19.50 per share.

* * *

The Commonwealth Trust Co. of Pittsburgh showed a net profit of $312,547, equal to $20.84 per share, last year, compared with $266,735, or $17.78 per share in 1947.

William B. McFall, President, told stockholders that the company does not anticipate 1949 earnings to equal 1948, but that favorable earnings are hoped for.

At the end of the year, the bank had total deposits of $60,058,955, compared with $58,945,026 the previous year. In 1938, the figure was $19,538,828, and in 1928, $14,698,570.

The bank paid dividends totaling $5 on 15,000 shares owned by 434 stockholders. Approximately $70,348 was allocated to a profit sharing retirement plan for employees, and $237,547 added to undivided profits and reserves.

* * *

The Penn Mutual Life Insurance Co. reports a new all-time high record of insurance in force in its annual statement for 1948. John A. Stevenson, President, in his report to policyholders, said at the close of 1948 insurance in force reached the record total of $2,659,013,126, an increase of $118,065,704. Assets totaled $1,180,836,775, a gain of $54,817,678. New business totaled $229,783,837, which represented a slight decline under 1947, but a 24.4% increase over the average for the previous five years.

* * *

United Gas Improvement Co. reported net income of $2,381,422 for 1948, equal to $1.52 a share, compared with $2,859,754, or $1.83 for 1947.

* * *

Pennsylvania Turnpike, it is stated, may not come to market for some time for the money with which to extend the superhighway 60 miles westward. The deal, however, it is understood is still alive. In August last an issue of $134,000,000 bonds was marketed.

* * *

National Steel Corp., in a preliminary statement subject to final audit, reports net income for the year 1948, after all charges, of $40,121,505, equal to $16.35 per share on 2,453,900 shares. The 1948 earnings compare with earnings in the preceding year of $26,838,788, equal to $12.03 per share on 2,230,817 shares.

Net earnings for the fourth quarter of 1948 were $12,920,071, equal to $5.27 per share on 2,453,900 shares, comparing with earnings of $6,935,133, equal to $3.11 per share on 2,230,817 shares in the final quarter of 1947.

Ernest T. Weir, Chairman, stated that the 1948 earnings were after special charges in the amounts of $10,500,000 for additional depreciation; $1,000,000 for retirement payments, and $2,100,000 as an accrual for vacation pay based in part on services in 1948 but payable in 1949. The accrual for vacation pay was in addition to the actual disbursements made for this purpose in 1948.

Mr. Weir pointed out that the special provisions for depreciation and retirement payments are not deductible for Federal income tax purposes.

Of the special provision of $10,500,000 for depreciation in 1948, made in addition to the regular provision, $4,000,000 was charged to fourth quarter operations. Mr. Weir explained that the special provision was made to give recognition to higher construction costs and the abnormal use of plant and equipment resulting from capacity operations.

* * *

Edw. Lober Stokes Co., Philadelphia was a member of the syndicate headed by Halsey, Stuart & Co. Inc. which offered $10,000,000 Central Illinois Public Service Co. first mortgage bonds series C 3⅛% on January 19.

* * *

Robert G. Dunlop, President of the Sun Oil Co. recently announced that the oil industry appears to be entering a new phase of the economic cycle in which both prices and dollar profits will be reduced. Increased production, he continued, has changed the oil supply picture from a "tight situation" a year ago to one in which all needs are being filled at present.

* * *

The First Boston Corp., Philadelphia National Bank and A. E. Masten & Co. on Jan. 26 offered $700,000 City of Erie water bonds of 1950-69 at prices to yield from 0.80 to 1.75%. The group was awarded the issue on a bid of 100.769 for 1¾s.

* * *

The public offering of 400,000 shares of common stock of Kopper Co., Inc. on Jan. 10 met with a good reception and the issue was quickly oversubscribed.

Of the 75 underwriting houses participating in the distribution of the stock 45 Philadelphia and Pittsburgh houses were included.

* * *

Paul G. Benedum, oil executive has been elected director of the Peoples First National Bank & Trust Co., Pittsburgh. Mr. Benedum is President and Director of Hiawatha Oil & Gas Co., Penn-Ohio Gas Co., Bentex Oil Corp. and Melben Oil Co.

* * *

The Pittsburgh plant of the Fisher Body division of General Motors Corp., to be erected near the Irvin Works of Carnegie-Illinois Steel Corp., will produce a full line of stampings for the body of one of the models of Chevrolet. The particular model has not yet been chosen.

The steel, to be used in the erection of the plant in Mifflin township, will become available about June. The first stamping will be turned out in the early Spring of 1950, although the plant itself actually may be completed at the end of this year. Currently, the site is being graded. The plant when completed will contain 600,000 square feet, with all manufacturing operations on one floor and a cafeteria, locker rooms and other such facilities on a second level.

* * *

Jones & Laughlin Steel Corp., the nation's fourth largest steel producer, announced Jan. 25 the highest net profit and sales for any year in its history.

The Company had a net income of $31,222,451 equal to $12.01 per common share for the year ended Dec. 31, 1948, compared with an adjusted net income of $19,225,184 or $7.17 per common share for 1947.

The profit reported originally for 1947 has been reduced by $3,158,407, to reflect the application of vacation wages and other costs determined last year to have accrued in 1947, the company said.

Sales for the year were $446,057,301, compared with adjusted sales of $350,132,366 in 1947.

The steel firm nearly doubled its profit during the fourth quarter of 1948 compared with the like 1947 quarter. A net profit of $10,973,134 equal to $4.28 per share for the fourth quarter compared with $5,700,853 or $2.16 per share in the fourth quarter of 1947.

Sales for the last quarter were $130,588,685 compared with $96,621,722 in the like 1947 period.

A dividend of 65 cents on the common has been declared, payable April 5 to holders of record Feb. 18. A preferred dividend of $1.25 is payable April 1 to holders of record March 4.

* * *

Graham, Parsons & Co., and Yarnall & Co., both of Philadelphia were among the underwriters who on Jan. 11 offered the common stock of Gulf State Utilities Co. at $16.80 per share.

J. Barth & Co. to Admit Walter Lawrence as Partner

LOS ANGELES, CALIF. — The New York Stock Exchange firm of J. Barth & Co. will admit Walter E. Lawrence to partnership as of Feb. 10. Mr. Lawrence is in charge of the firm's Los Angeles office.

Why Double Taxation?

By BENJAMIN A. JAVITS*
Director, Investors League, Inc.

Mr. Javits deplores lack of solidarity of investors as special group, and says it is job of organized investors to destroy double taxation of dividends and thus foster free enterprise system. Holds double taxation is crime against investors and government would fare better financially without taxation of dividends.

Investors of this country are a special group of people who have never considered themselves investors. One of our great difficulties in the Investors League has been to make people who are workers, lawyers, doctors, engineers, directors of corporations and others understand that they have an integrity as investors too. I personally have preached the doctrine that until freedom of investment is assured, no freedom is safe because the matter of title of ownership to an opinion or a religion is exactly the same title of ownership as applied to a share of stock, a home or a farm. Certainly, the average farmer does not consider himself an investor, nor does the average home owner. If that were true, the picture nationally and internationally would be considerably changed.

Benjmin A. Javits

There is a difference between the "takers away" and the "have nots." The "have nots" come in a special category and are entitled to every consideration that we can give them. In fact, it is the free enterprise system of the United States that holds out the great promise for the "have nots." It is the job of the free enterprise system of this country to destroy the class of "have nots" by making every "have not" a "have."

But the "takers away" are a totally different category. They are the incubus on the American economic body. They are the group that have discovered a new racket and a new scheme. Whereas the villain of old would either put before him the innocent maiden or an innocent child to help him do his dirty work and protect him in his evil ways, the "taker away" is the man that uses government and political position to protect himself and to put a sweet face upon a devilish scheme.

The whole psychology of the "takers away" is to make the people generally feel, especially the "have nots," who are innocent victims of all the sytsems that have gone before and not of the capitalist system alone, that "takers away" are entitled to power because they can take away from somebody else and give to the "have nots." This is the great fraud which stems right from the Kremlin through to our own Communist and venal groups everywhere.

We must not fool ourselves that there are no venal groups in our own camp. Too many American corporations, although the number is small, are manned by people who in more or less degree are motivated by venal impulses. These people are the investors' enemy too.

These "takers away" that I have just spoken about are the people who have sold the idea to the "have nots" or to the lower income bracket group that they can give them something for nothing; that they can raise wages, for instance, without corresponding increase in production. The whole world for centuries has been deluded by the idea that this could do done and that nothing happens. The fact is that whenever it is done something does happen because any system breaks under that scheme. You cannot get away with something for nothing. The kings and fakers of a gone day who chipped off a certain percentage of the silver in their money or the gold in their money were the same type of fakers as the "takers away" of today. Something for nothing never happens and it is our investors that must be contsantly girded for this battle.

A Job for Organized Investors

Here, too, is a great job for organized investors. Vigilance is the price of safety in every field, and vigilance is a mighty necessary word in the lexicon of the investor. To vigilance must be added militancy, especially in this day and age when the agencies of government are being used to tax in order to destroy. It is in this field now that the GI's of the industrial system, the investors, must again put their fighting clothes on.

The "takers away" of government are riding the medium of taxes for all it is worth. Tax incentives have done wonders in building up various parts of the country. Tax incentives are absolutely necessary and essential to build up people in their own personal operations. We cannot prosper and go forward with the government doing what would be despicable in an individual. No man could stay in business who sold you goods in the back of the store for one dollar and then as you walk out the door made you pay another dollar simply to walk out. And so with this question of double taxation of dividends. It is a fraud, an imposition and an injustice. No American should be subjected to that kind of treatment. In fact, the whole tax system in this country is unsound. Politicians who are mostly the "takers away" and their satellites or co-conspirators, must be given a lesson not by organized minority of our American people but an organized majority who are our investors.

The majority of our American people are certainly the investors—with millions of United States bond holders, stock holders, insurance policy owners, savings bank depositors, home owners, farm owners, etc. This majority of the American people are the industrial GI's. They are general investors, but do they get their rights? Do they get recognition? Are they running their own affairs? The answer to these questions is "No." Some squirt who could not earn $50 a week suddenly becomes a great Senator or a great Congressman or a great office holder in some other direction or a great young frankfurter, and proceeds to get himself a small grinding machine in which he puts a lot of broken glass and then throws this powder into the

(Continued on page 39)

*From an address by Mr. Javits before a Forum sponsored by the Investors League, Inc., New York City, Jan. 27, 1949.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

The annual meetings of shareholders of New York City banks held during the past three weeks have been marked by an unusual amount of interest in the dividend policies of the various institutions.

In response to questions of shareholders, presiding officers, in a number of cases, indicated that the managements would consider a larger payment during the coming year. In other cases officials stated that present policies would not be changed, (although dividend requirements were earned by a substantial margin) unless the level of earnings changed.

This matter once again brings up the subject of bank capital and dividend policies. For the past several years bank supervisory officials have encouraged additions to the capital funds of banks. Inasmuch as the market for equities has been somewhat depressed, the principal source of new capital has been the retention of earnings. With only 50% to 60% of earnings, in most cases, paid out as dividends, the additions from this source have been substantial.

Now, however, most New York City banks have built up their capital to the traditional ratio of one to ten and the question arises, in view of existing conditions, as to the necessity and desirability of further adding to bank capital by retaining a considerable percentage of earnings.

In order to obtain some idea of the present capital funds position of the various banks, the following tabulation was prepared. It shows, as of Dec. 31, 1948, the total capital funds which includes capital, surplus and undivided profits. Also shown are the total deposits and the ratio of capital to deposits. In addition to this customary ratio, a risk ratio has been computed. This ratio takes into account the fact that cash and U. S. Government securities constitute a considerable portion of the bank's assets. In general these securities are short-term and are relatively free of risk. By deducting these items from deposits, you obtain what might be called risk deposits.

AS OF DECEMBER 31, 1948

	Total Capital Funds	Total Deposits	Ratio of Capital to Deposits	Cash and Governments	Risk Deposits	Ratio of Capital to Risk Deposits
	——000's——			——000's——		
Bank of Manhattan	$66,623	$1,127,930	16.9	$734,919	$393,011	5.9
Bankers Trust	164,879	1,325,472	8.0	881,390	444,082	2.7
Central Hanover	130,550	1,400,785	10.7	1,039,087	361,698	2.8
Chase National	327,764	4,327,000	13.2	2,897,403	1,429,597	4.4
Chemical Bank & Tr.	110,727	1,435,190	13.0	903,081	532,109	4.8
Commercial National	21,077	183,678	8.7	159,027	24,651	1.2
Corn Exchange	45,037	772,123	17.1	713,763	58,360	1.3
First National	141,587	523,323	3.7	477,678	45,645	0.3
Guaranty Trust	366,890	2,311,139	6.3	1,622,050	689,089	1.9
Irving Trust	116,434	1,113,182	9.6	780,119	333,063	2.9
Manufacturers Trust	129,566	2,223,383	17.2	1,693,056	530,327	4.1
*National City	320,795	4,731,275	14.7	3,294,292	1,436,983	4.5
New York Trust	65,896	642,399	9.7	451,670	190,729	2.9
Public National	31,316	515,991	16.5	387,974	128,017	4.1
U. S. Trust	29,679	133,239	4.5	110,136	23,103	0.8

*Includes appropriate figures of City Bank Farmers Trust Company.

As can be seen from the above table eight of the 15 banks are close to the traditional ratio of one dollar of capital to ten of deposits. Seven showed higher ratios, with two as high as $17 of deposits to $1 of capital.

When cash and government securities are deducted from deposits and that figure is used as the basis of the ratio, a different picture is presented. Although risk assets in the form of loans have expanded sharply in the past three years, it does not appear there is any great risk of capital funds.

Thus, while most of the banks are considered to have adequate capital under present conditions, there is also the matter of return on capital invested. At the present time the rate of return is relatively low. This raises the question of adding further to capital when the funds cannot be employed profitably.

For purposes of comparison a table on 15 New York City banks has been prepared which shows figures for the past two years on dividend payments, operating earnings, percentage of earnings distributed and percent earned on capital funds.

	Dividend —Payments— 1948	1947	Operating —Earnings— 1948	1947	Pct. of Earn. Paid in Divs. 1948	1947	Percent Earn. on Cap. Funds 1948	1947
Bank of Manhattan	$1.20	$1.20	$2.65	$2.06	45%	58%	7.9%	6.4%
Bankers Trust	1.80	1.80	3.08	3.00	58	60	5.6	6.0
Central Hanover	4.00	4.00	6.86	6.68	58	60	5.5	5.5
Chase National	1.60	1.60	2.57	2.51	62	64	5.8	5.8
Chemical Bank & Trust	1.80	1.80	2.89	2.61	62	69	6.5	6.0
Commercial National	2.00	2.00	3.41	3.66	59	55	5.7	6.2
Corn Exchange	2.80	2.80	4.93	5.03	57	56	8.2	8.6
First National	80.00	80.00	77.09	85.36	104	94	5.4	6.2
Guaranty Trust	12.00	12.00	17.98	17.42	67	69	4.9	4.8
Irving Trust	0.80	0.80	1.36	1.26	59	63	5.8	5.5
Manufacturers Trust	2.40	2.40	5.19	4.72	46	51	8.3	7.9
*National City	1.60	1.60	3.37	3.25	47	49	6.5	6.8
New York Trust	4.00	4.00	6.50	6.54	62	61	5.9	6.1
Public National	2.00	2.00	4.68	4.25	43	47	8.2	7.8
U. S. Trust	35.00	35.00	45.16	36.56	78	96	6.1	5.0

*Includes appropriate figures of City Bank Farmers Trust Company.

The above figures reveal that there has been little change in dividend payments in the past two years. Recently Bank of Manhattan paid an extra of 10 cents a share which will raise the annual rate to $1.30. Also Manufacturers Trust paid a stock dividend of one additional share for each 11 held.

During the two-year period operating earnings have been relatively stable and the percentage paid out in dividends has remained about the same.

The individual needs of the various banks will be a dominant factor in the determination of future dividend policies. However, it is believed that an arbitrary policy of retaining a certain portion of earnings should not be followed. It may be that a greater proportion of earnings than the present 50% to 60% (possibly 70% to 80%) could and should be distributed.

Daggy Stricken

J. Gentry Daggy, of the Philadelphia office of H. M. Byllesby

J. Gentry Daggy

and Company, Incorporated, suffered a heart attack and is under care at Pennsylvania Hospital. Mr. Daggy, who is well-known in trading circles, is now off the critical list, but is still allowed no visitors.

The Railroads—A Case of Simple Arithmetic

By G. METZMAN*

President, New York Central System

Asserting railroad rate increases have not kept pace with rising costs, and gap of $1 billion annually exists in railroad revenues, prominent rail executive lays blame to slow process in permitting rate advances. Stresses importance of a dynamic, progressive railroad industry as only true hope for relatively lower rates, and attacks subsidizing of competitive carriers. Cites New York Central's heavy outlay for improvements and new equipment.

Unfortunately, most businessmen generally are so busy coping with immediate and piecemeal matters that there is a lamentable tendency to let the "long-run" or future take care of itself. We often are so busy "putting out fires," so to speak, that we find it difficult to do the planning that would prevent those fires from occurring in the first place. As a prominent educator has expressed it, Americans generally "spend so much time on things that are **urgent** that we have none left to spend on those that are **important.**"

Gustav Metzman

While we cannot neglect those things which are truly urgent, we should—and we must—spend more time considering those things which are important. There are many of them in every business, but since we today are concerned with transportation, I want to call your attention to some factors in the railroad industry which are urgent and important—to the railroads, and to you.

Any business—whether it be a large manufacturing concern or the corner grocery—must in the long run make a reasonable profit or go out of business. No industry can long exist, and remain useful, on a semi-starvation basis. That is true of your own industries; that is equally true of the railroad industry.

In this postwar period, you have been facing constantly rising expenses. So have the railroads. Since just before the war, for example, the railroads have experienced an increase in annual operating costs of $4 billion, while the rise in annual revenues has been less than $3 billion. Thus a serious gap has developed, of more than $1 billion a year.

Railroad Rates Have Not Kept Pace

The reason is, of course, that the prices the railroads receive for their services have not kept pace with the cost of rendering these services. Just last month, the Emergency Board appointed by President Truman, in its report on the wage case of the nonoperating railroad employes, commented on the situation in these words: ". . . the railroads have been holding the price line much more effectively than have the shippers whom they serve and from whom the carriers purchase their fuel, steel products and other necessities." Freight rates and passenger fares necessarily have been increased, but even so, the present situation, as compared with 1939, is as follows:

The wage rates we must meet, and the prices we must pay for fuel and materials, have increased an average of 99%;

Freight rate levels, including the interim increase granted last week, have gone up only about half as much, or 52%;

And, largely because the revenues actually received from an increase do not in practice equal the general level of an increase, the average revenue received for handling a ton of freight one mile has gone up only about one-third. Thus, the increase in the average prices which we must pay is about three times as large as the increase in the prices which we are permitted to charge for our freight services.

As a result—and despite the fact that in the postwar period we have been successfully carrying an unprecedented peacetime volume of traffic—the railroads as a whole have not been participating in the general national prosperity. Let me be quite specific, and quote once more from the report of the Presidential Emergency Board. The Board said:

". . . the carriers have not prospered to the same degree as have other industries. When ratio of net incomes to net worths are compared for the past 3½ years, Class I railroads averaged 3.3% while leading corporations in manufacturing averaged over four times as much (13.7%), mining almost four times as much, retail and wholesale trade over five times as much (16.7%), and even other public utilities which are also regulated about 2½ times as much."

Now let me give you a slightly different comparison, based on two reasonably comparable times of national prosperity:

Decline of Return on Investment

In the 1925-29 period, America's Class I railroads had a return on net worth of 6.2%, while manufacturing corporations were enjoying a return of 10.7%.

But in the first half of 1948—and despite a much larger volume of business—the railroads had a return on net worth of only 3.9%, whereas manufacturing corporations were enjoying an average return of 19.1%!

In other words, while the return of manufacturing corporations was jumping from 10.7% to 19.1%, the return of the railroads was slumping from 6.2% to only 3.9%!

I am not complaining about profits, for **profits** make the wheels go round. I am concerned about the unrealistically low **level** of the railroad industry's profits. Just as in your own business, the railroads must have a fair level of profits to make their wheels go around—and go around in your service. The same principles of sound business which apply to other industries apply with equal force to the railroads. That is why the railroad industry urgently requires a substantially higher average annual return than it is now earning in order to continue to progress and fully serve your needs.

There are two principal reasons why the railroads as a whole have not been participating in America's general prosperity. One of these reasons is the problem of subsidized competitors. This is a complicated subject, and there is not time to discuss it now. But I would like to leave with you the thought that while all forms of transportation have their spheres of usefulness, those which require and receive constant blood transfusions from the public purse are inordinately expensive in the long run. They increase your tax bills. To the extent that they divert traffic which the railroads can haul more efficiently, they also

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*An address by Mr. Metzman before the Silver Jubilee Anniversary Luncheon Meeting of the Mid-West Shippers Advisory Board, Chicago, Ill., Jan. 6, 1949.

Threat of Economic Concentration To Free Economy

By HON. TOM C. CLARK*
Attorney General of the United States

Warning of constant trend toward concentration of industrial power, U. S. Attorney General asserts people have right to expect sincere and vigorous efforts to be made to reverse the process in favor of free and unrestricted economic opportunity. Says Sherman Antitrust Act, because of its flexibility, is admirably suited to meet the problems of today, and calls on businessmen and lawyers to cooperate with Justice Department.

There has been considerable controversy concerning the adequacy of the Sherman Act to cope with the problems of monopoly. By and large, it is my belief that the Act because of its flexibility is admirably suited to meet this problem. The antitrust laws are a moral and economic force designed to enhance the social welfare. Judge Learned Hand aptly expressed this concept when he said in the opinion in the Aluminum case "[In passing the Sherman Act], Congress . . . was not necessarily actuated by economic motives alone. It is possible, because of its indirect social or moral effect, to prefer a system of small producers, each dependent for his success upon his own skill and character, to one in which the great mass of those engaged must accept the direction of a few. These considerations, which we have suggested only as possible purposes of the Act, we think the decisions prove to have been in fact its purposes."

Tom C. Clark

Our great American society rests upon the idea of limited power. This philosophy is best expressed in our Constitution, the principal source of our cherished freedom. These moral concepts and this ideology of limited power apply to industry and every other segment of American society. Liberty is endangered when either economic or politicial power is concentrated in the hands of the few.

We Want Free Enterprise

Most people in this country agree that they want free economic enterprise, full employment and equal economic opportunity. Unfortunately, many only pay lip service to the principle. If we believe in economic freedom, we must do what is absolutely necessary to make it possible—that is, preserve, restore and continually create competition.

We can accomplish this in two ways. First, through the continued vigorous enforcement of the antitrust laws, to which I have pledged myself. Second, indirectly through you, the American lawyers, with your great traditions of public service. As leaders of society, you have a social responsibility to capitalism and democracy. The antitrust law is no stranger to American businessmen, and certainly it is no stranger to their lawyers. Within the spirit of the law, rather than within the limit of the law, there must be preserved complete freedom and independence.

The Department of Justice cannot do the job alone. The problems of enforcement are not simple. The preservation of business freedom, so fundamental in our American heritage, necessitates a complicated and costly method of enforcement of the antitrust laws.

In many instances we can proceed only after the monopoly has been formed. A striking example of that is the recent antitrust suit against American Telephone & Telegraph Company and the Western Electric Company. The result is that the average antitrust suit costs upward of $200,000 and requires from three to four years of litigation. The remedy is not to change the system at the sacrifice of business freedom but to prevent monopolies from being formed. And it is here that business and the bar can make its greatest contribution to the solution of the problem.

Of course, I realize that the economic purpose of business is profit. It is this motive plus imagination, initiative and ingenuity that has made this country the world's leading producer. However, the desire to accomplish this economic purpose at times becomes so intense that some consider public policy good or bad, vigorous or ineffectual, practical or visionary by the effects on profits.

Self interest is a human trait. And, it is not new. In 1758 an anonymous writer expressed this thought: "It is found by sad experience that in trading countries the attention which individuals show to their private interest, becomes destructive of the superior regard due to the public. Hence at such times as the honor, the welfare, and the very being of a nation is at stake, the influencing question too often is: What shall I now get or lose?"

That was a serious indictment then and it would be now. However, I do not think it can be leveled at industry in this country. The war has amply demonstrated the desire and capabilities of American business to come to the aid of its country in times of strife.

Yet, does indudstry realize the implications of this monopoly problem? That self interest which seeks profits must be tempered by self interest which impels the preservation of our economic freedom. This is the long range problem for business. It is a problem which each of you in your capacity of legal advisor to business can and must present to your client.

There is too much recent and tragic world history not to impress upon us the dangers in failing to meet this problem. In Italy, in Germany, in Japan the same disastrous cycle of events transpired. The forces of monopoly became so entangled in their own web of greed that they were forced to turn to a Mussolini, and a Hitler, and a Tojo to extricate them.

Surely history would record this as our blindest hour if we failed to learn those lessons which have been shown to us in the blood and suffering of all the world.

Avoid Weakness From Within

We as a nation need not fear strength from without so long as we avoid weakness from within. That is our greatest foe. That was the hope of the fifth columns; it

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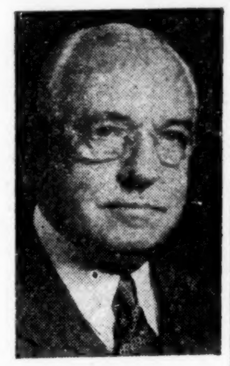
*An address by Attorney General Clark before the Antitrust Section of the New York Bar Association, New York City, Jan. 26, 1949.

Double Taxation and the Security Markets

By COL. ALLAN M. POPE*
Chairman, Finance Committee of New York University

Former investment banker attacks double taxation of dividends as leading to scarcity of equity capital. Says it does not help our financial security and does not even give to the poor what is taken away from the rich. Holds net loss of revenue to government from elimination of dividend tax would be insignificant, as impact of tax affects adversely low income groups as well as those in higher brackets. Predicts repeal of dividend tax would assure enormous potential flow of capital in secondary equity markets.

A year ago or thereabouts I addressed a Forum under the auspices of this League in Philadelphia and the subject was an allied one, namely, the scarcity of venture capital. I said then that there was no scarcity of venture capital but there was a decreasing amount made available because incentive was lacking largely because of existing taxation.



Allan M. Pope

Today on the subject of the effect on the security market of double taxation of dividends we are picking out one particular tax from several which I included a year ago. Today therefore I am addressing myself to this tax—this double taxation on those corporate profits which are distributed as dividends.

Capital available for equity investment is not wanting today any more than it was a year ago. It is not being offered however freely and as a result the lack of it is affecting our economy.

The question before us is that of the elimination of this tax which on the face of it seems unfair, seems illogical and to some degree is unique as a form of taxation. I doubt if we would impose such a tax today if we were seeking additional revenue and had not already imposed it. If that is true, it is just as bad to continue it as to initiate.

I believe in retrospect we can safely say that there was one strong argument advanced and to some degree one single popular note struck, when this tax was first ventured upon, which again might create a telling reason for its continuance today. That note is the politically popular one that such a tax hits at the well-to-do or wealthy people.

Following Mr. Hitler's supposed formula that if you say an untruth often enough it will be believed, I would say that, with no reflection on anyone other than a slight dig at their ignorance, this is not, as often supposed, a tax to soak the rich, it more nearly soaks those in the lowest income brackets and others in nearby brackets.

The very rich obtain little advantage from dividends. They cannot afford to invest in such for the purpose of providing income. They must buy tax exempt securities for income or realize if possible capital gains. If they have a double tax on dividends received it is a relatively minor source of concern to them. Their present equity holdings are quite substantial, but have been, for the most par, long ago acquired.

Who Receives Dividends?

Going to the bottom end of the ladder of income brackets we find among those receiving between zero and $5,000 net income an increasing number of persons estimated as receiving about $104 billion of our national income and receiving about $1.5 billion of dividends out of a total of $5.3 billion received by individuals with net income.

It was used as a basis for discussion, as I recall it, not many years ago by leaders of a political party that no man should be permitted to receive over $25,000 per annum. As that seemed to politicians socially-minded to set a reasonable income level for a semi-socialized man, if we take those in brackets from zero to $25,000 of net income we find they receive somewhere around $122 billion of our $133 billion of total individual net income and receive somewhere near $2.8 billion in dividends declared out of a possible total of $5.3 billion of dividends received by individuals with net income. Here I invite your attention to the fact that I am talking of dividends and income received only by individuals, not by corporations. Total personal income received by all classes of individuals, not corporations, is over $200 billion and dividends about $7 billion.

I stop long enough here to point out as directly bearing upon our discussion, that the figures quoted show that about half of all the dividends which individuals receive in this country are taxed while in the hands of the people who are receiving an income of $25,000 or less and nearly 30% of all dividends paid to individuals are taxed while in the hands of people in the income brackets between zero and $5,000 per annum.

In the security markets we find progressively less financing and a lesser proportion of all financing through equity money than in past years of generally similar characteristics. Of course, in years of extreme depression, we would expect to find less of any kind of financing for new or old undertakings. Why is the interest in equities declining?

We are now in the stage in our economic development wherein we find the money for investment in equities held by a different group of people. Before income taxes were imposed the great bulk of new equity money for new enterprises or for new undertakings of old enterprises came from the wealthy and they were wealthy. This, I am satisfied, has been shown not to be true today. We find 30% of all dividends from equities received by individuals are received by those in the zero to $5,000 bracket. We find in such a group retired school teachers, the widows living on a limited inheritance, those retired from business living on their savings, those with a small retirement allowance, and so on. These people have properly been conservers of their limited savings.

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*An address by Col. Pope at Forum on Double Taxation sponsored by the Investors League, Inc., New York City, Jan. 27, 1949.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

James M. Trenary, Vice-President of **United States Trust Company of New York** since 1942, was elected to the Board of Trustees of tnat institution on Jan. 27. Mr. Trenary joined the Company in 1923. He is Vice-Chairman of the Trust Division of the New York State Bankers Association, a member of the Executive Committee of the Trust Division of the American Bankers Association, and a member of the Executive Committee of the Banking Division of the New York State Bar Association. He is a past President of the Corporate Fiduciaries Association of New York City.

James M. Trenary

At the organization meeting of the Board of Directors of the **Irving Trust Co. of New York** on Jan. 20, following the annual meeting of stockholders, William N. Enstrom, who has been President for the past seven years, was elected to the office of Chairman of the Board. Richard H. West, who has been Executive Vice-President and a member of the bank's Board of Directors for several years was elected President. Mr. Enstrom thus becomes the Irving's chief executive officer and Mr. West the administrative officer. Harry E. Ward, President for 23 years and Chairman since Jan., 1942, retired as an active officer of the bank and was elected Honorary Chairman. He will continue to be a member of the Board, will serve on important committees and have an office at Irving's headquarters, One Wall Street. Mr. Enstrom has spent virtually all of his business life at the Irving. He has had broad experience in all phases of the bank's business, having served in every division of its activities. He became a Vice-President in 1919. Mr. West, a native New Yorker, remained in Europe for a number of years after his army service in World War I. With headquarters in Paris, he was engagea in industrial reorganization during the reconversion period. Since joining the Irving's staff in 1930 Mr. West has participated in all phases of the bank's business, has been its senior loaning officer for several years, was elected a Director in Feb., 1946 and Executive Vice-President in June, 1947. Mr. Ward completed 47 years of service with the institution last October. Through successive promotions he became President Jan. 1, 1919 at the age of 39. In this capacity he served for 23 years, becoming Chairman in 1942. He was President of the New York Clearing House Association for two terms.

W. N. Enstrom

Arthur S. Kleeman, President of **Colonial Trust Co. of New York**, announces the appointment of Thomas V. Flynn as Assistant Secretary and Assistant Treasurer, and Eugene J. McCabe, Jr., as Assistant Manager of the International Division. Mr. Flynn, who has been with the bank for two years, waas formerly associated with City Bank Farmers Trust Co. and has had 24 years' experience in the financial field. Mr. McCabe has been with Colonial Trust Co. since his release from the Navy with the rank of Lieutenant at the end of 1946. Before the war Mr. McCabe was associated with the Guaranty Trust Co., where his late father was an officer for many years.

Lane Flagg Gregory, Vice-President in charge of the Empire State Building branch of the **Lawyers Trust Co. of New York**, died on Jan. 27. He was 61 years of age. Mr. Gregory became a messenger in the company when he was 13 years old, the institution then having been known as the Title Insurance Co. He became an Assistant Secretary in 1926, and a Vice-President in 1942.

At a special meeting of the Executive Committee of Lawyers Trust Company held on Feb. 1, Rober N. Carson, formerly a Trust Officer, was elected a Vice-President of the company. Mr. Carson succeeds the late Mr. Gregory as manager of the branch office located in the Empire State building.

Arthur W. Mischanko, Vice-President and Cashier of The **National Bronx Bank of New York**, has been elected a member of its board of directors, it is announced by Harvey L. Schwamm, President. Mr. Mischanko, who had been a principal N. Y. State bank examiner, as well as a Special Deputy Superintendent of Banks for two years, joined the bank as Vice-President March 15, 1948, and two months later was elected Cashier as well.

The retirement under the pension system of the **Albany Exchange Bank of Albany N. Y.**, of Carl M. Cronk, after 43 years of service, the last five years as Secretary Treasurer and Trustee, was reported in the Albany "Times-Union" of Jan. 11. It is stated that the board also announced the election of Addison J. Keim as Secretary and Raymond St. John as Treasurer, succeeding Mr. Cronk. Mr. Keim, whose father is President of the bank, was formerly with the National Commercial Bank & Trust Co. Mr. St. John has been with the Albany Exchange Bank for several years, and was formerly Assistant Secretary of First Trust Co., Albany.

At the annual meeting of the shareholders of **Rockland-Atlas National Bank of Boston**, on Jan. 25, the first since the recent consolidation, directors were re-elected as follows: Roger Amory,

(Continued on page 34)

What Double Taxation Does

By HON. FRED L. CRAWFORD*
U. S. Congressman from Michigan

Congressman Crawford attacks view double taxation on corporations is needed because management does not distribute all earnings to stockholders. Says corporations should not be distinguished from individuals, and that taxation of dividends promotes unsound corporate financial structure. Defends corporate plowing back of earnings, along with growth in size of business organizations, and holds dividend taxation is a tax on job creation.

When we entered World War I we had a direct interest bearing Federal debt of about $1.5 billion. Just prior to our entry into World War II this debt was about $49 billion. As you well know, it now exceeds a quarter of a trillion dollars, calling for an interest service charge alone of about $5.5 billion annually.

F. L. Crawford

The fourth peacetime budget since major hostilities of World War II ceased, and calling for $42 billion, has been submitted. Twenty years ago it was $4 billion, I believe that before the fiscal year ending June 30, 1950 shall have passed, the budget will be nearer $50 billion than $40 billion, or even greater.

Uncle Sam, and by this term I mean you bond-buyers and taxpayers, tramping down the highways of this world finds this fantastic debt and budget as but a heavy ball and chain on both his feet.

In the President's Budget Message of a few days ago we find this language:

"Under the Charter of the United Nations, therefore, we have been discussing with some of the Western European countries measures designed to increase the security of the North Atlantic area. To further this objective, I expect later to request funds for providing military supplies to those countries and to certain other countries where the provision of such assistance is important to our national security. It is not possible now to predict accurately what will be needed, and I have therefore included no allowance in the Budget."

Again he says:

"Defense expenditures to maintain the present program are expected to be higher in 1951."

"It must be recognized that expenditures in the fiscal year 1951 are likely to be larger than those for 1950. Expenditures for national defense can be expected to rise substantially above the level estimated for 1950."

And continuing from his message—

"Finally, it must be apparent that in times like the present we must be in a position to make new plans if conditions change. I do not consider it prudent under such circumstances for the government finances to be in unbalance, or even in precarious balance. In prosperous times like the present, we should take the necessary steps to reduce the public debt and place the government finances on a sounder footing.

"On the basis of existing tax legislation, Budget receipts for the fiscal year 1950 are expected to total $41 billion."

The President's program as now before us is certainly one of unbalance.

You are familiar with the personnel of the Council of Economic Advisers to the President—Messrs. Nourse, Clark and Keyserling. The Council's Annual Report was placed before Congress only a few days ago; consisting of two parts. First, the President gives his politico-economic views and attempts to harmonize some with his legislative program. Secondly, the Council gives its cautious and nonpolitical views on the economic conditions present and prospective.

The President in speaking of corporation profits says:

"As I pointed out a year ago, such profits are in excess of the levels needed to furnish incentives and equity funds for industrial expansion and to promote sustained economic health, although some businesses have not thrived nearly as well as others."

Continuing the President says:

"Corporate financing of investment in plant and equipment, inventories, and customer credit re-

(Continued on page 32)

*An address by Congressman Crawford at a Forum sponsored by the Investors League, Inc., New York City, Jan. 27, 1949.

Current and Future Capital Requirements

By DEXTER M. KEEZER*
Director, Department of Economics,
McGraw-Hill Publishing Company, Inc.

Reporting a survey of business needs for new plants and equipment, Mr. Keezer estimates amount at $14 billion in 1949, but warns plans may have been changed because of recent political and economic developments. Says there is tremendous room for improvement in America's industrial plant and equipment, but primary reliance for industry's capital funds now is from its own resources.

The subject of this symposium rather implies that the participants know where the money to meet current and future capital requirements is coming from. Very frankly, I don't know. I wish I did. In fact one of my most haunting fears is that the money will not be available, at least in sufficient volume or on anything like what I would regard as satisfactory terms. I do not regard money supplied by the government to build, say steel mills, money that can conceivably be supplied on what I would regards as satisfactory terms. That, however, is not equivalent to my forecast that it won't be supplied.

Dexter M. Keezer

I do know something about current and future capital requirements. In fact, I don't believe I ever arrived at a meeting quite so well prepared as I am on this point. For today our Department of Economics at McGraw-Hill is releasing the results of a national survey of "Business' Needs for Plants and Equipment." It covers plans for capital expenditure not only in 1949 but also over the next five years. It also deals with hopes and fears about how the money required will be obtained. I think that I am not immodest in saying that no such comprehensive survey has ever been undertaken, or at any rate completed. I'll be glad to send a copy to anyone here who wants it free of charge, and, also, to enter into talk or correspondence about any of the points covered.

In the few minutes to which I intend to limit myself at this juncture I can do no more than hit a few of the highest of the high places of our findings about "Business' Needs for New Plants and Equipment." They are based on answers to our questions from companies employing about 5,000,000 industrial workers. That is about a fourth of all industrial workers. Among them are about 60% of the workers in that part of American industry which spends about two-thirds of all of the money spent for new plant and equipment. Most of the companies represented are large companies, but we have found previously that the expenditures of smaller companies follow the general pattern made by the expenditures of the large.

Here are the major findings:

(1) A few weeks ago American industry, as represented by manufacturing, mining, transportation and utilities, planned to spend almost as much for new plant and equipment this year (in 1949) as is spent last year. That is somewhere in the neighborhood of $14 billion.

That, let me hasten to add and underline, is not a forecast. It is a statement of plans, which we checked and rechecked after the election. Whether the plans will actually be carrried out depends on many political and economic developments still to be unfolded.

If the tax on corporate earnings is sharply increased I think it is a safe assumption that the plans will be cut. That is for the simple reason that business profits now constitute the principal source of funds for purchase of new plant and equipment.

(2) If we continue to have prosperity American industry plans to keep on making large expenditures for new plants and equipment over the next five years. Plans to spend about $55 billion over that period are already on the books.

To my mind that was the most interesting and most significant thing we found out. As you know there has been (and I guess still is) a widespread feeling that the rate of expenditure for new plant and equipment since V-J Day has

(Continued on page 37)

*Excerpts from a discussion by Mr. Keezer given before the Conference on Finance of the American Management Association, New York City, Jan. 21, 1949.

Largest Brokerage House Reports Net Income

Merrill Lynch, Pierce, Fenner & Beane announce 1948 net income as $3,678,913, compared with $1,827,952 in previous year. Capital funds are stated at $15,500,000 and assets placed at over $141 million.

The nation's largest stock brokerage firm, Merrill Lynch, Pierce, Fenner & Beane reported its net income in 1948, as $3,678,913 compared with $1,827,952 in 1947. The firm's partners, of whom 84 participated in the profits, are reported to have fared almost three times better than in 1947, being allotted $1,704,513, compared with $659,703 in 1947. Employees numbering 2,905 received more than $1 million under the firm's profit sharing plan.

Chas. E. Merrill

The firm's 1948 report gives the first detailed geographical breakdown of its business. According to this breakdown, the Northeastern States, including New York, Pennsylvania, New Jersey and the New England States, contributed about 23% of the total security and commodity commission income; the Southeastern States contributed 22% and the Midwestern section 20 while the Southcentral contributed 17 and the Western area 18%.

Acording to Charles E. Merrill directing partner, figures indicate that the financial industry has deep roots in every part of the nation, and that the industrial machine is owned at the grass roots and not in some mythical "Wall Street."

In 1948 the firm did 9.4% of all round-lot Stock Exchange volume compared with 8.7% in 1947. Individual transactions were more than a million in securities and over 277,000 in commodity trades. The firm on Dec. 31, 1948 reports its capital funds at $15,500,000 and total assets as $141,341,000.

1948 Underwritings and Corporate Capital Flotations Show Slight Decline

"Chronicle" tabulation however shows year's outlay one of most noteworthy in U. S. history, having been exceeded only in five other years.

New corporate securities placed in the United States during the full year of 1948, according to the "Chronicle's" computation, amounted to $6,261,656,563. This rate of financing was slightly lower than the $6,317,917,517 reported for 1947. The 1948 figures, however, rank as one of the most noteworthy in history. Only in five other years, according to our records, were the 1948 figures of $6,261,656,563 exceeded. The other years in the order of their magnitude were: 1929, with a record of $10,026,361,129; 1928, $7,817,877,031; 1927, $7,319,195,804; 1946, $6,652,069,681 and 1947, $6,317,917,517.

The figures for the last 23 years representing new capital and refunding operations follow:

Year:	New Capital	Refunding	Grand Total
1948	$5,984,598,532	$277,058,031	$6,261,656,563
1947	4,831,046,013	1,486,871,504	6,317,917,517
1946	3,564,441,065	3,087,628,616	6,652,069,681
1945	1,272,716,733	4,985,870,721	6,258,587,454
1944	672,482,693	2,508,595,838	3,181,078,531
1943	377,872,345	702,995,786	1,080,868,131
1942	642,883,026	417,637,250	1,042,520,276
1941	1,052,201,383	1,356,603,363	2,618,804,746
1940	736,382,782	2,026,195,056	2,762,577,838
1939	383,453,032	1,812,713,388	2,196,166,420
1938	873,348,950	1,267,145,739	2,140,494,689
1937	1,225,012,213	1,208,679,946	2,433,692,159
1936	1,214,950,299	3,416,995,382	4,631,945,681
1935	403,569,958	1,863,858,807	2,267,428,765
1934	178,257,949	312,836,500	491,094,449
1933	160,717,178	220,866,478	381,583,656
1932	325,361,625	318,533,720	643,895,345
1931	1,763,448,723	825,516,700	2,588,965,423
1930	4,944,403,166	528,875,877	5,473,279,043
1929	8,639,439,560	1,386,921,569	10,026,361,129
1928	6,079,602,416	1,738,274,615	7,817,877,031
1927	5,391,008,544	1,928,187,260	7,319,195,804
1926	4,357,002,750	942,550,970	5,299,553,720

EDITOR'S NOTE—Complete details of financing negotiated in December and for the 12 months of 1948 appeared in the "Chronicle" of Monday, January 31, on page 3.

First Issue of $150-a-Year Magazine

Forbes Publishing Company has come out with the first issue of "Nation's Heritage," much-discussed new $30-a-copy, $150-a-year illustrated magazine. The new magazine weighs almost seven pounds, numbers 220 pages, and has the largest format of any magazine in America. Largely graphic, it is intended to give a dramatic, colorful picture of all phases of the heritage that belongs to Americans. The publishers expect it to be available to millions through public libraries, high schools, YMCAs, hospitals, plant recreation rooms, etc. Several hundred corporations are among the charter subscribers.

Eugene Delin With A. M. Kidder in Fla.

FT. LAUDERDALE, FLA.—Eugene R. Delin has become associated with A. M. Kidder & Co., Fort Lauderdale National Bank Building. Mr. Delin was formerly in the stock and bond department of H. D. Knox & Co. in N. Y. City.

Stoetzer, Faulkner Adds

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Francis H. Ford is with Stoetzer, Faulkner & Co., Penobscot Building, members of the Detroit Stock Exchange.

W. W. Blackburn Opens

(Special to THE FINANCIAL CHRONICLE)

CLEARWATER, FLA. — W. W. Blackburn has opened offices at 906 Eldridge Street to engage in a securities business.

Private Enterprise Has Not Solved Housing Problem

By HON. ROBERT A. TAFT*

U. S. Senator from Ohio

Senate Republican leader, maintaining private enterprise has failed to solve housing problem, and government programs thus far have been ineffective, defends Taft-Ellender-Wagner Housing measure. Admits it is socialistic, but denies public housing program would compete with or interfere with private housing industry. Wants role of Federal Government limited to financial assistance, leaving administration of public housing under local authorities.

I appreciate very much the invitation of the Graduate School of Business Administration of New York University and the Mortgage Bankers Association of America to speak to your Conference on the subject of Federal aid to housing. The Mortgage Bankers Association, of course, is deeply interested in the subject from the point of view of financing and investment in housing. Millions of families are concerned because of the difficulty they find in securing satisfactory housing accommodation. It is a burning issue in politics. I have been interested in the subject myself long before I came to the Senate. In 1943 I was Chairman of a subcommittee of a Senate Committee on Postwar Economic Policy and Planning to consider the housing problem. I have participated in the drafting of most of the bills that have been passed, and in the public housing bills which have twice passed the Senate but failed in the House. Unfortunately, the housing problem is so complicated in itself, it has been approached from so many angles and with so many panaceas for solution, it has created such violent prejudices, that it is hard for anyone to feel confident of the wisdom of his views.

Robert A. Taft

Housing Problem Not Solved

Regardless of all the measures taken, one thing is certain—we have not solved the housing problem. On top of the permanent problem, we have now an emergency situation arising out of the very low construction in the thirties, and the inadequate construction during the war. Undoubtedly, this temporary situation will cure itself in a few years. It takes nearly half a million units a year to provide for new families. Last year we provided 800,000 units and this year about a million units, all through private industry and with little slum elimination, so there has been a net gain of some 700,000 units. In many locations we seem to have caught up; in others, there is a shortage.

But we ought not to be led into unsound permanent remedies simply because of the emergency situation. I believe private industry with the assistance of the FHA and Federal Home Loan Banks can get us back to the normal situation which existed before the war. During the past two years, we have supplemented the powers of the FHA and the Federal Home Loan Banks, so that I believe there is every facility for the construction of new homes and the rehabilitation of old homes for every family which is able to pay a rental commensurate with present costs. Perhaps we should do something further in the field of providing a secondary market for GI loans since the legal restrictions today are hard to meet, but I believe that this is due to the unwillingness to raise the rate of interest rather than to any lack of available funds. I believe very strongly that families able to pay their rent should not be subsidized, and that they should pay for the capital investment at current rates of interest. The FHA has done a good job in bringing about a large reduction in the cost of financing homes. If industry and labor had done the same job, we would be a long way on the solution to our difficulties. Certainly, we should provide a secondary market to the extent necessary to tide over a temporary stringency of mortgage funds, but it ought not to be developed to the point where it represents a government investment in private housing.

There are some rather dangerous proposals today that the government lend anybody the money to build reasonably cheap houses at a very low rate of interest and a long term of amortization. That would be subsidy in a field where no subsidy is justified. It would put the government into the mortgage business with all the expense and collections of a mortgage service organization. This is a field where our problem ought to be solved within the principles of free enterprise. Your Association, perhaps, can join with others to insist on such a solution.

There is one field in which government programs have largely failed, that of encouraging rental housing for middle income groups. Nearly everyone who wants a home is forced to buy it, although many would prefer to rent. We have gone about as far as we can with FHA financing for rental housing of this character, although no doubt experience with the laws recently passed will show how they can be improved. I believe, however, that the difficulty is not so much with housing as it is a fundamental failure in securing investment in enterprises involving a degree of risk. Manufacturers and utilities find difficulty in getting people to invest their money in stocks and equities. Tax rates are so high that wealthier people have little interest in putting their money into a risk enterprise, and would rather buy government bonds and get 2½% for certain. One of the things which Congress is studying today is some change in the tax laws or other laws which will make it more attractive to invest money

(Continued on page 30)

*An address by Senator Taft at a dinner conference of the Mortgage Bankers Association of America, New York City, Jan. 25, 1949.

Mutual Funds

By HENRY HUNT

'48 Sales Up 2½%; Year-end Assets Up 7%

During 1948 gross sales of 80 odd mutual funds amounted to $274,000,000 as compared with '47 sales of $267,000,000, while year-end assets reached a new high of $1,506,000,000, against $1,409,000,000 a year ago. Due to relatively heavy liquidations particularly among industry group and specialty funds, net sales amounted to only $146,-000,000, some $32,000,000 under the 1947 figure.

The following tabulation shows the steady growth of the business during the past seven years:

(000 omitted)

Year	Assets	Sales	No. Shareholders
1948	$1,506,000	$274,000	722
1947	1,409,000	267,000	672
1946	1,311,000	370,000	580
1945	1,284,000	292,000	497
1944	882,000	169,000	421
1943	653,000	116,000	341
1942	486,000	73,000	312
1941	401,000	53,000	293

It is interesting to note that during the past seven years, while shareholders of mutual funds have increased 146% in number, stockholders of closed-end investment companies have decreased by nearly 34% as a result of preferred stock redemptions as well as buying in of common shares. It is also interesting to note that the average closed-end shareholder owned over $2,400 worth at the end of the year whereas the mutual fund shareholder on the average, owned $2,080 worth.

Combined assets of closed-end and mutual funds at the year-end approximated $2,250,000,000. May the business continue to prosper.

Wellington Reports

In a new style "visualized" annual report that is really a thing of beauty, **Wellington Fund** celebrates its 20th anniversary with assets at a new high of more than $64,000,000 while 1948 sales rose to the record level of nearly $19,000,000., conversely liquidations were gratifyingly small, amounting to only $1,195,000.

Pictorially the Wellington report must be seen to be appreciated. Suffice to say, its a job well done and a report that stockholders will enjoy reading.

Does Investment Management Pay?

"One of our Divisional Managers recently sent a list of 18 different stocks to our Investment Department. All of these issues were held by a customer of his. In the letter he asked our Investment Department to get the latest market prices on these various issues. It seems that the original investment amounted to a very substantial sum of money. However, the letter from our Investment Department to the Divisional Manager stated very simply 'All 18 Securities Were Worthless'."—From **"The Mutual Investor."**

How to Sleep Better

". . . I've bought stocks and bonds for years . . . not in large amounts but pretty substantial for me. Sometimes I've made out well, sometimes not . . . but whichever way it turned out, I've usually had a lot of worries and headaches. Well . . .

". . . thinking about it recently, I suddenly realized what had been causing my worries—I just hadn't had the time I should have spent in analyzing my securities . . . or following developments concerning them . . . or determining whether it would be a good time to sell my bonds and buy stocks, or vice versa . . . to do any of the things that go to make up sound investing. So . . .

". . . within 48 hours after I 'woke up,' I had taken a positive step—and with that step, the cause of my financial worries vanished. For I had seen to it that thereafter my securities would get the kind of full-time attention they need—by buying . . ."—**Mutual Funds!**—From a **"D. G."** Booklet called "I Never Knew."

Stock Prices in Terms of Earnings

"Investors who watch the level of stock market prices without relating those prices to earnings are apt to get a distorted view of the real cheapness or dearness of stocks. Charted below is the price-earnings ratio of Barron's 50 Stock Average over the last 20 years. It will be noted that only twice before in this period has the ratio sunk below eight times earnings; once in the depths of the 1932 depression and again during the lows of 1942.

"There is a significant parallel between the present situation and that of 1942. Then, as now, apprehension about events abroad overshadowed industrial activity at home. In 1942, industry was still spending huge sums on conversion to war production, the ultimate profitability of which was unknown. In 1948, industry was still ploughing back huge sums out of earnings and borrowings to step up production to a new peacetime level of demand. 1949 should

Prominent Personalities

(Fourth of a Series)

HARRY I. PRANKARD 2nd

President: Affiliated Fund; American Business Shares, and Union Trusteed Funds

Harry Prankard, just turned 46, is nearly six feet four inches tall when he stands up straight—which isn't often. Harry likes to sprawl in his chair and walks with a stoop as if no door had more than a six foot clearance. He has the jaw of a pugilist, but a receding hair line gives him a scholarly appearance, not belied by his knowledge and understanding of the problems of the mutual fund business. Harry is a hard worker and hits the road probably more often than any other mutual fund President.

Harry Prankard, 2nd

Harry's first job as a mutual fund executive (in 1946) is his present one. It would appear that he started out at the top to learn the business, but such is not the case. For some years prior to accepting his present position, Harry was head of Prankard, Zimmerman, an accounting firm that serviced the Lord, Abbett investment management organization as well as many other mutual fund sponsors. Following the death of Andy Lord, who was killed falling from a horse early in 1946, Mr. Prankard was selected to take over the former's duties. That Harry has well filled the shoes of his late predecessor is evidenced by the record sales of Lord Abbett funds under his leadership, which have amounted to nearly $82,000,000 during the past three years.

For a C. P. A. Harry is a surprisingly talented salesman. Precise and low pressure in his delivery, he has the happy faculty of being able to point up the advantages of buying mutual funds, particularly "Affiliated," in simple, easy to understand English. He injects far more sales punch into his reports to shareholders than do most mutual fund Presidents, using charts and graphs profusely to illustrate his points.

Harry enjoys a good game of golf and hits a long ball off the tee although his second shot seldom finds the green. He also dabbles in oil painting in his spare time and has turned out some recognizable portraits of his friends.

When asked his opinion as to the growth of the mutual fund business over the next few years he replied, "By 1955, mutual fund assets should be at least triple their present figure of $1,500,000,000."

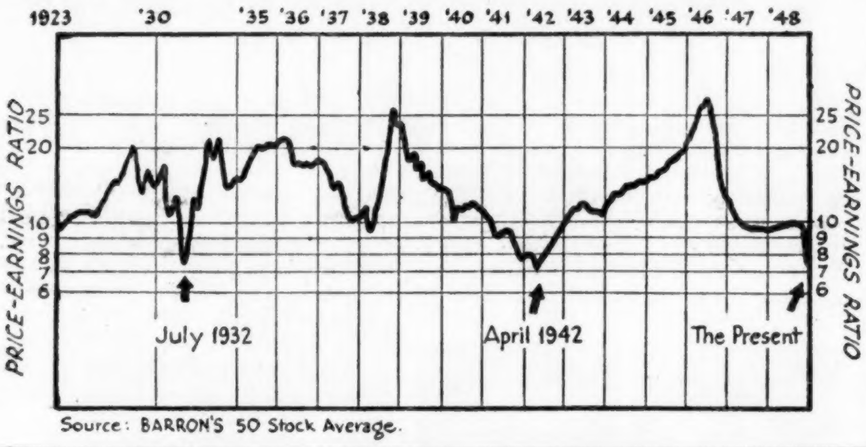
Harry F. Murchie With B. J. Van Ingen & Co.

(Special to THE FINANCIAL CHRONICLE)

JACKSONVILLE, FLA.—Harry F. Murchie has become associated with B. J. Van Ingen & Co. Mr. Murchie was formerly in the Trading Department of Clyde C. Pierce Corporation, with which he had been associated for a number of years.

Harry F. Murchie

benefit in productivity and profits from this new expansion. At all events, the chart indicates that the lows in investor confidence are very brief. They can also be very profitable to those who do not wait too long."—from the **Parker Corporation** "Letter."



Reports Higher Manufacturing Earnings in Third Quarter of 1948

Joint SEC and FTC financial report for U. S. manufacturing corporations estimates in third quarter profits were $60 million higher than in preceding quarter and $480 millions above profits in corresponding period of 1947.

The net income after taxes of all U. S. manufacturing corporations was estimated at $2.9 billion for the third quarter of 1948, according to the quarterly report just made public jointly by the Securities and Exchange Commission and the Federal Trade Commission. This rate of profit was about $60 million higher than for the preceding quarter and about $480 million above the profits in the corresponding quarter of 1947. The increase in profits from the second to the third quarter reflected higher sales more than offsetting higher costs and expenses.

According to the report, total sales of all manufacturing corporations for the three months July through September are estimated at $42.1 billion, a 3% increase over the previous quarter, while costs and expenses amounted to $37.4 billion. Of the $4.6 billion of net profits before Federal income taxes, there was $1.7 billion provision for such taxes, $1.0 billion was paid out in dividends, while retained corporate earnings amounted to $1.9 billion for the quarter.

Total assets of all manufacturing corporations were estimated at $106.7 billion and stockholders' equity at $73.5 billion at the end of September 1948. Of total assets, about $28.9 billion was in the form of inventories, representing an increase of more than $800 million over the preceding quarter. Net working capital rose by $1.2 billion to the record level of $39.7 billion, while net property, plant and equipment increased $1.1 billion during the quarter. It appears that about 85% of the expansion in net working capital and net property, plant and equipment during the third quarter of 1948 was financed through retained earnings.

As shown by the report, the sales of manufacturing corporations in the smallest and largest size classes each rose by about 7% in the third quarter compared with the second. The intermediate size corporations showed essentially no change. Reflecting the trends in sales, profits after taxes for the smallest and largest classes each increased by about 10%, whereas the medium size groups showed declines of from 3 to 16%.

On an industry basis, sales either increased or remained practically unchanged for all industries except textile mill products. The picture with respect to profits was less uniform and 9 out of the 22 industry groups experienced lower aggregate profits. The two most striking changes were a 23% drop in profits for textile mill products and a 26% increase for motor vehicles and parts.

The rates of profit, both in relation to investment and to sales, were essentially the same as in the second quarter of 1948. For all manufacturing companies profits after taxes per dollar of sales during the third quarter amounted to 6.9%, while the ratio to stockholders' equity was 16% on an annual basis. As regards the different size classes of corporations, the smallest and largest size groups showed increases from the second to third quarters in the profit ratios offset by declines in the medium size classes.

There was not too much difference in the rate of return related to stockholders' equity for the various size groups of corporations during the third quarter. Industries with the highest rates of return were motor vehicles and parts, lumber and wood products, and petroleum and coal products. The transportation equipment industry (other than motor vehicles) again showed the lowest rate.

Resigns Post

Frank L. Scheffey has resigned as Vice-President of George R. Cooley & Co., Inc. Temporarily his address will be 52 Wall Street, New York City. Mr. Scheffey was formerly Executive Secretary of District No. 13 of the National Association of Securities Dealers.

Frank L. Scheffey

Leo G. Griffith Dies

Leo G. Griffith, associated with Kay, Richards & Co., Pittsburgh, died at his home at the age of 67 after an illness of several months. Mr. Griffith had been Pennsylvania State Chairman of the National Conference of Christians and Jews in 1947.

Rothschild & Co. Admits

CHICAGO, ILL.—Rothschild & Company, 135 South La Salle Street, members of the New York Stock Exchange, have admitted Paul J. Adelson and Harry H. Saalfeld to partnership.

Outlook for Building Materials

By MELVIN H. BAKER*
President, National Gypsum Company

Asserting there are indications of some leveling off of building costs, together with a decline of from 5% to 10% in building volume, Mr. Baker sees more building labor available as well as more modern methods used by builders and contractors. Says output of most materials has been steadily increasing, but price outlook is clouded by demand for higher wages and by uncertainty over domestic and foreign political situation.

It is my intention to talk about some of the every day dollar and cents problems which we face in building construction. More specifically, I shall limit my discussion to the supply and cost of construction materials. I am aware, of course, that more money was spent for building in 1948 than in any other year in our history. I am also aware that construction costs have mounted steadily during the post-war years until they are more than twice as high as in 1939. It is not my function to explain or to attempt to justify these higher costs.

Melvin H. Baker

There are indications that 1949 will see some leveling off in building costs. Before I turn to the subject of my report to you, I should like to take a moment to point out a few of these indications. Most experts with whom I have discussed the outlook for construction in 1949 seem to agree that there will be a falling off of from 5 to 10% in volume. If this appraisal is right, there will be a corresponding slackening in the demand for construction materials. This should bring us to a point where prices will hold to their present, or slightly lower, levels.

There are other factors that will help to reduce the over-all cost to build in 1949. First of all, it appears that there will be more labor available in the coming year. The apprenticeship program on which the Unions and the Industry have so fortunately cooperated since the war should begin to pay off this year, bringing hundreds of young, skilled workers into the building trades.

Secondly, the growing tendency among contractors, large and small, to use more modern methods, machines, and materials, will cut into costs. Builders have learned that they can build faster and less expensively by using power tools and machinery, and they have discovered that more time and money can be saved by the use of assemblies fabricated on the site or in the factories.

Materials Outlook

However, I want to talk about the outlook for materials. In order that we may get a better view of what lies ahead, let us first review the last few years to determine what has happened to the supply and prices of the principal building materials.

In general, the output of most materials has been increasing steadily since the close of the war. Based on the Department of Commerce records for the first six months, indications are that the 1948 production of construction materials was in the neighborhood of 5% higher than that of 1947.

It must be remembered that the year 1947 recorded the highest output of any year since 1915, according to the Department of Commerce Index. This Index for July, 1948 showed an increase of 8% over July, 1947 and about 54% over production in 1939.

Despite the steady climb in production, prices of most materials rose substantially during the years since 1939. The Bureau of Labor Statistics has reported that the composite price of all construction materials was 117% higher in June, 1948 than it was in 1939. This increase has resulted partially from the record-breaking demand and partially from the impact of the postwar inflationary forces.

Behind this story of increased production and higher prices, there are certain trends to be noted in the records for specific materials. In order to plan construction for 1949 intelligently we must consider these trends and their effects.

Let us look, first of all, at lumber. Estimates based on the reports of the National Lumber Manufacturer's Association indicate that total production of lumber in 1948 amounted to about 37½ billion board feet. This reveals an increased output of about a billion feet a month over 1939. However, lumber needs for new construction in 1948 probably exceeded 26 billion feet. Considering the non-construction uses of lumber, these figures indicate that output must be continued at about the present rate during 1949, even in the face of a lower volume of building.

Lumber prices in recent years have been a chief contributor to the higher cost of construction. In September, 1948, the average wholesale price of all building materials listed on the Bureau of Labor Statistics Index showed an increase of 117% over 1939. During the same period, lumber prices jumped 251%. Miles Colean, of the Construction Industry Information Committee, has carefully analyzed this increase and he demonstrates, in an article in Dun's Review for November, that it has been caused by three principal factors. First of all, "Over the years lumber has been transformed from a free resource available close at hand in most sections of the country, to one where commercial growth is concentrated in a much more limited area than before and one which is **produced**, rather than free." This change has brought about added freight and growing costs.

Secondly, "Research in the properties of wood and in timber engineering has created more selective demands as to species, grade, moisture content, and so on by lumber buyers." Because of the increased services involved this has definitely increased the per unit price.

"The final element in the price of lumber," Colean points out, "has been increased wages. From 1939 through 1947, wages in the forests and the mills advanced 112% as against 85% for wages in the durable goods manufacturing industries as a whole." These do not include raises made in wages during 1948.

These factors, added to the unusual postwar demand, made lum-

(Continued on page 29)

*An address by Mr. Baker before the American Society of Civil Engineers, New York City, Jan. 20, 1949.

Purchasing Agents Report Downward Price Trend More Pronounced

Chairman Robert C. Swanton of Business Survey Committee of National Association of Purchasing Agents gives composite opinion of members on business conditions.

Robert C. Swanton, Director of Purchases of Winchester Repeating Arms Corporation and Chairman of the Business Survey Committee of the National Association of Purchasing Agents reports as follows at the end of January:

Robert C. Swanton

Manufacturing business did not bound back from the slump of November and December. Purchasing agents report a slight further reduction in production and a continuing decline in backorder schedules. The declining trend of prices is more pronounced. Employment is somewhat lower than December. While, generally, the consensus of the reports is not encouraging, there is a bright spot in the satisfactory "purchased inventory" condition of industry. Greater reductions in inventory are reported and the turnover ratios are increasing, despite the lower production and employment. 62% report this favorable situation.

As to the effect on business of the proposals in the President's Fair Deal message, the general opinion is that it is too early to make any realistic appraisal; the presently reported attitude is to "wait and see." However, there is a strong opinion expressed that much of the proposed, disturbing legislation may not become law. On the whole, the present situation calls for extreme caution, which seems to be evident in the current short-range buying and inventory policy of purchasing executives.

Commodity Prices

Except for the increase in freight rates, the price trend is down for January. To a considerable extent a buyers' market is in evidence. Competition is stronger in many lines. Voluntary allotments of critical materials by producers are covering more consumer requirements. Outside markets are offering price inducements to move inventories. Price protection is being obtained on long-term commitments.

Inventories

That purchased industrial inventories are keeping in balance with lower production activity, is shown in the maintenance of the high turnover rates established in 1948. This is, perhaps, the healthiest trend showing in the January survey. Some few who report higher inventories attribute them to some stock-piling of scarce materials which are being received under voluntary allotments and are in excess of current production requirements. With supply exceeding demand in many lines, and the easing position of even the most critical industrial materials, any proposal for government controls should be unnecessary, unless this situation is reversed by events.

Buying Policy

Forward commitments remain well within 90 days with the accent on 60 days and under. The policy of keeping inventories at the lowest possible working minimum requires a most careful screening of requisitions. The greater availability of many more items gives purchasing agents more time to negotiate for price values, better quality, consideration of new sources of supply. Buyers do not now have to search for competition, as increased selling effort brings it to them in most lines.

Specific Commodity Changes

The list is predominantly down, in January, except for the effects of increased freight rates. Premiums for lead, copper and steel have about disappeared. Many more products are in easier supply.

On the down side are: Acetate alcohol, burlap bags, belting, building materials, corrugated cartons, caustic soda, cable, chipboard, clothing, cocoa butter, cotton buffs, coal, fats and oils, foodstuffs, steel forgings, furniture, fuel oil, gelatine, scrap iron and steel, alloying charge on lead mixtures, lubricants, lumber, manufactured parts, paper, plywood, printing, rubber, salt cake, shellac, soap, stearic acid, gray market steel, tallow, small tools.

Easier to get: Automobiles, trucks, brass, cartons, cement, electrical equipment, oils, pig iron, hose, lumber, papers, valves and fittings, wire.

A few important commodities are reported up: Ammonia, asbestos products, caustic potash, dyestuffs, fluorspar, mercury, nitrate soda, metallic pigments, starch.

In tight supply: Aluminum, steel, lead, copper, zinc, tin, nickel, ammonia, cellophane, chromic acid, nails, pipe; but improving, spiegeleisen.

Employment

Employment continued to drop in January and at a faster rate than in December. 47% report lower payroll population or reduced working time. Productivity is increasing—fewer strikes, skilled and semi-skilled workers are now available in several areas. This, coupled with the declining cost of living, indicates the fourth wave of wage increases may not be such a serious threat to further inflation of production costs and prices.

Canada

Canadian production increased in January, but back orders slipped almost as much as in the States; commodity prices are trending down faster than in the United States. Inventories are being reduced; employment is sharply off. Buying policy is strongly on the near side of the "hand-to-mouth to 90-day" bracket.

Mark Borgatta With H. M. Byllesby & Co.

H. M. Byllesby & Co., Inc., 111 Broadway, New York City, announce that Mark A. Borgatta has become associated with the firm in its investment department. Mr. Borgatta was previously with Granbery, Marache & Co.

Mark A. Borgatta

Adams, Sloan & Co. Formed in New York

Adams, Sloan & Co., Inc. has been formed with offices at 72 Wall Street, New York City, to conduct an investment business specializing in public utility securities and investment trust shares. The firm will also maintain a branch office in Sarasota, Florida.

Officers are William L. Adams, President; S. Alan Sloan, Jr., Vice-President, and John Di Mattina, Secretary and Treasurer. Officers of the firm were all formerly associated in the firm of Adams, Keister & Co.

Uhlmann & Latshaw to Open in Kansas City

KANSAS CITY, MO.—Uhlmann & Latshaw, members of the New York Stock Exchange, will be formed as of Feb. 10 with offices in the Board of Trade Building. Partners will be Paul Uhlmann, Jr., the Exchange member, and John Latshaw. Mr. Uhlmann in the past was a partner in Uhlmann & Benjamin. Mr. Latshaw has been manager of the trading department of the Kansas City office of Harris, Upham & Co.

Hold Basic Causes of Inflation Have Run Course

Dean G. Rowland Collins and Dr. Marcus Nadler of the New York University Institute of International Finance foresee a greater degree of economic stability, unless Congress and Administration take measures of inflationary nature.

Contending that the original causes of inflation in this country have run their course and the economy in the period ahead should be marked by a greater degree of stability than has been the case during the past three years (unless new measures are taken by Congress and the Administration which would be much more inflationary than those that have been so far proposed), Dean G. Rowland Collins, Director, and Marcus Nadler, Research Director of the Institute of International Finance of New York University, in a bulletin entitled "Inflation and Economic Stability" conclude that at present the inflationary forces are being counteracted by deflationary forces. Inflationary factors still persisting are:

Dr. Marcus Nadler Geo. Rowland Collins

(1) Support of farm prices, which not only will prevent a further substantial decline in farm prices during 1949 but will also cost an estimated $866 million during the fiscal year 1948-49 and $538 million in 1949-1950. The fact that the cost of living, particularly of food, cannot decline materially and reflect the forces of supply and demand has an important bearing on wages and hence on prices of manufactured goods.

(2) It is probable that Congress will pass legislation increasing public housing construction. To some extent, however, this may be counteracted by a decline in private construction and expenditures for plant and equipment.

(3) The European Recovery Program, which will continue until 1952. During the coming year, moreover, the demand for American commodities under the program is likely to undergo a change. There will be smaller shipments of commodities which are in abundance here such as food and farm products, and an increased demand for machinery and equipment, which are still in short supply in the United States.

(4) Large national-defense expenditures. For the fiscal year ending June 30, 1950, national-defense expenditures are estimated at $14.3 billion as compared with $11.7 billion for the year ending June 30, 1949. Military expenditures are inflationary since they create a demand for scarce materials while the goods produced are not available to the consumer. Moreover, an increase in the personnel of the military services reduces available manpower for production of commodities and services for sale to the civilian population.

(5) The social measures recommended by the President in the State-of-the-Union Message and in the Budget Message are to some extent also inflationary in character since they will increase benefits paid by the government to individuals. This applies particularly to expanded social security benefits, Federal aid to education, and national health insurance. Moreover, it is fairly certain that Congress will pass legislation increasing the minimum wage rate from 40 cents an hour to a much higher level, which will increase the purchasing power of about 1,500,000 people. Should there be another round of wage increases not accompanied by a corresponding increase in efficiency of management and labor, this too will naturally constitute an inflationary element in the economy.

The forces of deflation, of equal strength and importance, according to the authors, are:

(1) The increased productive capacity of the country, which will make it possible for American factories to produce a larger volume of commodities than at any time since the war. To this should be added the fact that business inventories have continued to increase, reaching a record total of over $55 billion at the end of November, 1948.

(2) The larger crops harvested during 1948, not only in the United States but also throughout the world, and the favorable crop outlook for 1949. On this matter, however, it is altogether too early to make any definite statement.

(3) The narrowing of the gap between exports from and imports into the United States. In part, this is due to the increased productivity of Europe, which has made larger quantities of manufactured goods available for export, and partly it is due to the policy of most European countries to curtail imports from the dollar area.

(4) If the inflationary forces should gain strength, it may be assumed that Congress will pass legislation increasing the powers of the Board of Governors of the Federal Reserve System over the money markets and over member as well as non-member banks. Whether this is done by granting the Board power to increase reserve requirements or to impose a special reserve in the form of government securities is immaterial. The net effect would be the same. In the same category belongs the power of the Board to control consumer credit which the President asked to be prolonged, the proposed power to curb commodity speculation, and continuance of rent and export controls.

(5) In his Budget Message the President asked for a substantial increase in taxes, to be borne by corporations and by individuals in the higher income brackets. A material increase in taxes on corporation profits will lead to reduction in capital expenditures. An increase in individual taxes will cause a decline in the demand for certain types of luxury goods and also for equities. Both of these factors will exercise a deflationary effect. Moreover, the President also called for a budget surplus of over $2 billion, to which should be added the excess of revenues over expenditures of the various trust funds and agencies of the Federal Government. A budgetary surplus can be effectively utilized to reduce the volume of commercial bank deposits and the reserves of member banks, and thus curtail the purchasing power of the people and the credit expansion power of the banks.

Pearson With Dreyfus Co.

Dreyfus & Co., 50 Broadway, New York City, members of the New York Stock Exchange, announce that Samuel M. Pearson is now associated with the firm as a customers' broker. Mr. Pearson was previously with Jerome Melniker & Co.

A $500 Billion Annual National Income

Henry J. Kaiser, pointing out nation's production of goods and services has doubled every 20 years, says all that is necessary to maintain this historic pattern is unleashing the forces of vitality and expansion.

In an address before the National Association of Automobile Dealers in San Francisco on Jan. 25, Henry J. Kaiser, noted shipbuilder and automobile manufacturer, expressed the belief that a $500 billion annual national income was in prospect for the United States. Commenting on this, Mr. Kaiser stated:

Henry J. Kaiser

"Our production of goods and services in the United States has doubled about every 20 years. Think of it: Generation after generation, from 1869 to date, our people have doubled what is called our gross national product every 20 years.

"In 1948, our all-time high of gross output exceeded $250 billion.

"Now this 250 - billion - a - year country should raise its vision to attaining a $500-billion-a-year economy within the next score of years. Can we do it? Already we have surpassed the national employment figure of 60 million jobs—a goal that skeptics not long ago jeered as a wild dream. Now it becomes a question of unleashing the forces of vitality and expansion, in order that this country will at least maintain its historic pattern of doubling the national output every 20 years.

"It can be done, and yet at every step, there must be battled those who drag their feet and groan, 'impossible — it can't be done.' I speak from personal experience, because there's never been a time in my life when I haven't heard, 'You can't do that.' There were those who said an inexperienced organization could not dam a river, could not build the world's largest cement plant from scratch, could not build ships in less than six months, though it proved possible to build them on an average of 15 to 20 days per ship, month after month. Moreover, it was branded a rash undertaking to build the only basic steel industry on the West Coast, though today that steel plant is doubling its potential pig iron capacity; it is mining a mountain of rich California iron ore that will last for generations, and it is investing $35½ million in expansions. Indeed it was said that it was foolhardy to try to break into the aluminum industry, though today that business is running at the rate of more than $80 million a year and is supplying 20% of the country's primary aluminum to hungry markets. Likewise, when it seemed that the team of production men who had broken records in production ought to have something real to contribute to the automobile industry, skeptics said the opportunity for newcomers to compete no longer existed in this industry.

"The point is that you, in advancing your own business, or the nation's leaders, in struggling for an ever-growing economy, always must combat the forces of reaction, retraction, fear and little faith."

West Coast Bank President Foresees No Major Depression

Reno Odlin, President of Puget Sound National Bank of Tacoma, though admitting soft spots in situation, points to heavy public spending and vast consumer purchasing power as tending to keep economy in balance. Reports earnings of bank at $11.02 per share, and election of Weyerhaeuser and Hill as directors.

In reporting the operations of the Puget Sound National Bank of Tacoma, Wash., to shareholders, Reno Odlin, President of the institution expressed the view that despite development of "soft spots" in the present economic situation, no immediate major depression was impending. "Among economists and other authorities there is a rather general feeling that the 'war boom' has passed its crest." Odlin stated in his printed report, which will be widely circulated and quoted in the country's financial circles because of his position as the representative from the 12th Federal Reserve District (Pacific Coast states) to the Federal Advisory Council of the Federal Reserve System.

"A re-adjustment period appears to be at hand. The economy is already showing 'soft spots' in a great many places where supply has finally caught up with demand, and the sellers' market of recent years has turned into a buyers' market in many fields," Odlin continued.

"As to the extent and duration of the 'recession' or 're-adjustment' there is a wide difference of opinion. I am inclined to think the weight of authoritative opinion is that there need be no apprehension of a major depression immediately ahead. Many factors seem to weigh against such a development—among them the high levels of national defense expenditures, continued extensive foreign outlays, the farm price support program, heavy public works spending by local government units, etc.—not to mention the vast purchasing power still in the hands of individuals in the form of saving accounts, War Bonds and the like."

"The economy appears to be in pretty delicate balance between further inflation and deflation. Many factors are working in each direction. To a greater extent than ever our prospects for the future seems to depend on the actions of government.

"One hopes that the Administration will move carefully and wisely to maintain an economic climate in which business can make the necessary re-adjustments, and reach a sound equilibrium."

Mr. Odlin reported the completion of a highly successful year of operation by the bank, pointing to a substantial growth in business. This was especially true of the consumer credit and trust departments, the latter showing a 25% increase.

Bank earnings were announced as $11.02 per share from which was paid the annual dividend of $2 per share, the balance being added to reserves and capital funds.

Following the stockholders' meeting, Mr. Odlin announced the election of J. P. Weyerhaeuser, Jr., President, Weyerhaeuser Timber Co., and Curtiss L. Hill, President, Tacoma Transit Co., to the board of directors of the Puget Sound National Bank of Tacoma.

Coleman, Burke Aid Charity Drive in NY

John S. Burke, President of B. Altman & Co., and John A. Coleman of the New York Stock Exchange firm of Adler, Coleman & Co., have been named by Francis Cardinal Spellman, Archbishop of New York, as Chairman and Executive Chairman, respectively, of the Special Gifts Committee of the Cardinal's Committee of the Laity for the Thirtieth Annual Fund Appeal, it was announced by Right Rev. Monsignor Christopher J. Weldon, Executive Director of New York Catholic Charities. Frank C. Walker will serve as Treasurer of the Committee and George J. Schaefer as Assistant Treasurer. A goal of $2,500,000 was announced by Monsignor Weldon.

John A. Coleman

The thirtieth annual appeal of the Archdiocesan charities organization will open with a meeting of the Special Gifts Committee in the Empire State Club on Feb. 9 and will conclude with an intensive door-to-door solicitation of Catholic families by upward of 15,000 workers in the 376 parishes of the Archdiocese starting on March 27 and terminating on April 5, it was announced.

The Special Gifts Committee is organized in trade and industry groups to solicit funds from executives in the business and professional life of the City.

Reilly and Williams With Newborg & Co.

Newborg & Co., 30 Broad Street, New York City, members of the New York Stock Exchange, announce that David P. Reilly and Charles J. Williams have become associated with the firm. Both were partners in Edward J. Duffy & Co.

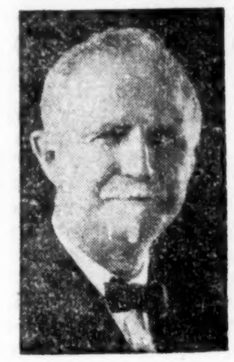
Hentz Adds D. Kolb

H. Hentz & Co., 60 Beaver Street, New York City, members of the New York Stock Exchange and other leading Stock and Commodity Exchanges, announce that David Kolb has become associated with the firm. Mr. Kolb was previously with Goodbody & Co.

Synthetic Food Production

By ROGER W. BABSON

While we all are worrying about Russia and World War III, we must not forget that at any time some great revolutionary invention may develop which will take everyone's attention, for awhile, off of Capitalism, Communism and every other "ism." I have in mind electronic experiments to greatly reduce the cost of canned fruit, vegetable and other juices whereby the new mineralized electrically enriched product will be more tasty and healthier than the present commercial products.



Roger W. Babson

Your value is measured by your energy, although this may be spiritual energy, mental energy or physical energy. This last shows itself in farm work, road and building construction, factory and office jobs and even home cooking or bed making! To develop energy is the reason for eating, drinking and breathing. Upon this need of food for energy, the agriculture of every nature is based and, in fact, exists.

But from where does your energy come? It comes from the sun in a wonderful way. The sun's electrical energy, supplemented by air, water and minerals, is stored by photosynthesis in the vegetable products which we eat. After eating, by a reverse process, this sun's energy is turned back again into human energy by electrical forces within our bodies. This is the entire story if you are a vegetarian. In case you eat meat, fish, eggs, etc., then there is also another intermediate process; but even then your energy really comes from the sun.

Sun, water and air are already free. Hence, it will be necessary only to spend a very little for minerals and certain electric rays—to create human energy. This might make it unnecessary for us to eat the products of the soil except for bulk and as luxuries. Our appetites would be satisfied electronically and we would never be hungry.

I believe that one of the laboratories of the Atomic Commission is now working on such a dream. The carbon atoms may show the way. With such a discovery there would need be no fundamental change in our present physical set-up. We would continue to get our energy from the sun; but a large percentage of the present cost of raising foods would be eliminated. The first step would be to apply these experiments to canned juices of various kinds and later perhaps to dairy products. These will exceed in taste and nutrition certain present products and will give us the sun's energy in a far cheaper and more efficient manner.

What Would Happen to Business?

What such a discovery would do to us economically I leave to your imagination! A limited amount of farm lands would be wanted for industrial products. Rayon, pulp, plastic and many other manufactured materials will always be dependent upon products of the soil. We, moreover, will continue to demand certain "whole" vegetables and fruits. Our stomachs require bulk which cannot be satisfied by juices or pills. When one considers the labor now engaged in the raising and processing of products now sold as juices, many million people might be thrown out of work and forced into other occupations.

Lands now used for fruit and some other agricultural purposes could decline in value. Railroads which depend largely upon the transportation of certain agricultural products, fertilizers, farm machinery, etc., could suffer. On the other hand, other lines such as building, clothing, fuels, automobiles, recreation and real estate in sunny states could have a great boom. This confirms the need of broad diversification in our investments which I have constantly preached in this column. Of course, this change is not coming all at once. Electronic juice and milk may be healthier than present one-enriched liquids, yet no juices can equal properly grown whole fruit and leafy vegetables of which we should eat much more.

What About World War III?

Such a discovery today could completely upset Russia's plans. With birth control and electronic foods, the arguments for Communism would disappear. Then we could have real world peace and a powerful United Nations. In fact, it is reasonable to believe that scientists at Argonne, Ill., Brookhaven, L. I., and Oak Ridge, Tenn., have this thought as their incentive which keeps them at work.

Canadian Securities

By WILLIAM J. McKAY

It is now becoming increasingly evident that the Canadian economy has unrivalled prospects of dynamic expansion. To some extent awareness of the inherent possibilities has been more marked outside the country than within. Foreign industrial interest and particularly those immediately south of the border have readily foreseen the advantages of their establishment within the Dominion. As a result Canada during the past few years has rapidly passed from the primary producer stage to become also one of the most highly industrialized countries in the world.

Canadian industry has been in the happy position of being able to draw on the technical skills of this country and Britain; in some cases it has introduced its own improvements, and in others has combined the best of both. A notable example is the Canadian North Star transport plane which incorporates with remarkable results British engines in a U. S. airframe. The Dominion is thus now at the stage where its incomparable natural resources can be employed to full account within its own borders.

Already the northward flow of U. S. industrial capital has played an outstanding role in the development of the Canadian economy but it would appear that the movement is still only in its initial period. Further vast enterprises involving the outlay of enormous sums are now at the planning level. With their consummation the Canadian industrial scope will be enormously expanded. It is logical therefore that the attention of the U. S. investor will be increasingly directed to the consideration of Canadian investment possibilities. In the past the private investor south of the border has profited to substantial degree as a result of participation in Canadian mining enterprises. On the other hand private investment in Canadian industry has not produced remarkable returns, and in general similar domestic investments have proved to be more attractive. On the other hand there has been considerable unwise speculation in many glamorous but empty gold ventures.

From the viewpoint of the average private investor it is difficult, especially in the light of past performance, to select the Canadian investment medium which will benefit most as a result of the industrial expansion potentialities of the Dominion. There is however one Canadian equity the position of which is absolutely unparalleled elsewhere. In view of its connection with virtually every economic activity of the country, the Canadian Pacific Railway Company constitutes the backbone of the Canadian economy. Consequently the holder of the ordinary shares of this unique railroad possesses what is tantamount to a general stake in Canada's future prosperity.

Occupying a leading place among the railroad systems of the world, the C.P.R. operates 17,000 miles of line in Canada, and over 3,000 miles in this country. In recent years however other interests of the Canadian Pacific domain have assumed greater importance than the railroad from the shareholder's point of view. These include ownership of the Canadian Pacific Express Co., Canadian Pacific Steamships, Canadian Pacific Air Lines, various subsidiary air lines, and Lethbridge Collieries. But the brightest single jewel in the C.P.R. crown is perhaps the 51% (1,682,500 shares) interest in Consolidated Mining and Smelting Co., the return on which alone is sufficient to cover the $1.25 dividend paid on C.P.R. since 1945.

The C.P.R. major participation in Consolidated Smelters gives its stockholders a direct interest in a vast and constantly growing base and precious metal mining empire which extends to all corners of the Dominion. In addition this largest base-metal producer in the world has recently become a major producer of chemicals and fertilizers. This extraordinary diversity of interests by no means exhausts C.P.R.'s economic repertory which also extends into ownership of land (including Alberta oil sites), world-famous hotels, and telegraph and news services.

Thus as the Canadian economy follows its inevitable course of spectacular expansion the Canadian Pacific Railway Company will develop accordingly—an interest in C.P.R. unquestionably constitutes a valuable stake in one of the most promising economic prospects in world history.

During the week the recent strength of external bonds was accentuated following demand on European account. The internal section on the other hand was dull and inactive. Free funds finally broke out of their long maintained narrow range in the neighborhood of 7½% and strengthened to 7%. The corporate-arbitrage rate on the other hand eased following the close of the International Petroleum-Standard Oil of New Jersey exchange operation. Stocks were irregular with industrials and base-metals lower, golds steady, and Western oils firmer, led by Anglo-Canadian which touched a new high at $5.35.

14,000,000 on the Payroll!

"One of the things which I think all of our citizens ought to realize is not only the enormous extent of penetration of government as it now stands in the daily life of all citizens but that in the build-up of necessary or unnecessary services about 14,000,000 of our people are today receiving regular checks from the Federal Government.

* * *

"That number has increased from somewhere about 2,500,000 18 years ago.

* * *

"This nation cannot exert its full strength either in peace or in war unless that government can function effectively. I, therefore, on behalf of my colleagues, pray for your support [in plans for reorganizing the Federal Government].

Herbert Hoover

* * *

"For you taxpayers to carry forward this work to ultimate fruition means billions. It is not millions, it is billions."—Herbert Hoover.

Next to a full scale pruning of the Federal establishment and of the activities it undertakes, a thoroughgoing overhaul in the name of efficient and effective operation is vitally needed.

In heaven's name, must the nation have 14,000,000 on its payroll?

Letter to the Editor:

Favors Permanent Excess Profits Tax and Cut in Normal Corporate Tax

C. H. Haines proposes reducing normal corporate tax to 30% and imposition of Excess Profits Tax of 25%, when surplus earnings of corporations exceed 8%, on capital.

Editor, Commercial & Financial Chronicle:

The permanent establishment of a Federal Corporate Excess Profits Tax simultaneously with a reduction in the normal corporate tax would in my opinion have the following advantages:

(a) It would be more equitable.

(b) It would tend to stabilize corporate net earnings.

(c) It would be based to a greater degree on the ability to pay.

(d) It would tend to prevent higher prices than are necessary.

(e) It would—if adopted along the lines suggested below—recognize the right to earn a fair profit on the capital invested in the business.

The Tax Proposal

(1) Reduce the maximum corporate normal tax to 30%.

(2) Impose an Excess Profits Tax of 25% on the excess of 8% of Total Capitalization (capital, unappropriated surplus, and long-term debt) over earnings less other taxes paid plus the interest paid on long-term debt.

For example:

	Caterpillar Tractor (using 1947 figures)
Long-term debt	$20,000,000
Common stock	23,144,777
Surplus	44,890,537
	$88,035,314
Exemption (8%)	$7,042,825
Income (after other taxes)	$15,685,000
Less Normal Tax of 30%	4,705,500
	$10,979,500
Add interest on long-term debt	400,000
	$11,379,500
Less Exemption (8% of Total Capital)	7,042,825
Excess earnings taxable at 25%	$4,336,675
Excess Tax (25%)	$1,084,169
Normal Tax	4,705,500
Total Taxes as Proposed	$5,789,669
Amount provided for per company report	5,728,443

On the basis of a study of 120 companies which representation pays about one-fifth of all corporate income taxes received by the Collector of Internal Revenue this proposal would indicate an increase of 4½% in corporate taxes or a total increase for the government of $500,000,000. The impact of such taxation would differ widely in its effect on industries and individual corporations in those industries as the following list shows:

No. of Cos.	Industry	1947 Tax Provisions as reported to stockhldrs.	Total Tax as Proposed
		(000 omitted)	
6	Auto Equip.	$46,407	$44,386
3	Auto Mfgr.	296,189	280,238
4	Bldg. Equip.	28,312	29,784
4	Bldg Material	21,887	23,377
7	Chemical	185,644	210,030
4	Containers	34,989	34,050
3	Distillers	75,953	80,643
5	Drugs	32,997	37,780
2	Elec. Equip.	94,162	95,568
3	Farm Mach.	45,828	44,830
8	Food	70,411	71,544
5	Meat Packers	59,352	53,063
3	Non-ferrous Min.	88,967	102,853
3	Movies	30,028	29,557
3	Office Equip.	30,017	32,899
5	Oil	144,976	279,999
4	Public Utility	53,876	43,708
5	Rails	129,551	113,525
2	Rail Equip.	6,838	5,502
4	Retail Grocery	37,097	37,236
7	Retail Stores	196,821	196,971
4	Rubber	59,264	64,079
5	Shoe	22,981	20,668
6	Steel	192,064	171,755
7	ATT subsid.	81,709	68,711
1	ATT consol.	74,381	70,681
4	Textile	38,355	45,231
3	Tobacco	56,350	49,890

Despite my advocacy of the principle of an excess profits tax based on excess earnings on total capitalization a substantial normal corporate tax must be retained to assist in giving stability to the government income which supports our credit structure.

The tax proposals outlined above represent my personal views and not those of any of my affiliations.

C. H. HAINES

Jan. 27, 1949
Investment Dept.
Harvard Trust Co.
Cambridge, Mass.

Boston Inv. Club Sponsors Sales Course

A 16-week course in the fundamental principles of selling as applied specifically to the investment banking industry will be conducted at Boston University, 685 Comonwealth Avenue, Tuesday evenings commencing Feb. 1, from 7:00 to 9:00 p.m. It will carry two hours of university credit and can be taken under the G.I. Bill of Rights. Tuition for non-veterans will be $25.

The Boston Investment Club, which is sponsoring this course (the first of its kind since the specialized Bond School Course given by individual investment firms after World War I) pioneered in forming the first Club for younger men entering the securities business following the termination of World War II. After formation of the Club, its officers made a study to determine the reasons causing such a high percentage of young men to leave the industry after a training period of a year or so, with a resultant loss of both manpower and money to the employing firms. This study proved conclusively that one of the chief factors that was lacking in the training of these men by the various investment firms was a systematic and constructive program of education in the art of selling. Therefore a course in such training seemed to be imperative. Acting on this premise, the Executive Council, conferred with Boston University and this Course evolved. It will be divided into two 8-week semesters.

The professor in charge will be Dr. Douglas H. Bellemore, Chairman, Department of Economics, College of Business Administration, Boston University. The Coordinator will be Mr. Clair C. Pontius, President, Boston Investment Club who is associated with R. L. Day & Co. Dr. Alfred C. Neal, Vice-President and Director of Research, Federal Reserve Bank of Boston will give the introductory lecture. The second lecture will be given by Wallace C. Strathern, Sales Training Executive for Eastern Gas & Fuel Associates and President of National Society of Sales Training Executives. J. Donovan Emery, District Sales Manager, Prudential Life Insurance Co. and an instructor in Salesmanship at Boston University will conduct the next three classes. The direct selling of consumer goods will be the subject of the next lecture and it will be divided into two parts. The first conducted by J. J. Hensle, Boston Division Manager, Fuller Brush Co. and the second part by Hillary J. McCrossin, Sales Director of the New England Division of Electrolux Corp. The seventh lecture, devoted to advertising, will be given by James Thomas Chirug, President of James Thomas Chirug Co. The last lecture of the first semester will be conducted by E. Benjamin Redfield, Northwestern Life Insurance Co.

The list of names of the lecturers for the second semester will be published prior to March 29 when this semester starts. The ninth and tenth classes will be devoted to the study of advertising and public relations. The men conducting these two classes will be drawn direct from firms actually engaged in this phase of the investment industry. The eleventh through the fourteenth lectures will be conducted by men who have been successful in the selling of securities and who will impart their knowledge based on their case histories. The fifteenth evening class will be devoted to the summarization of all previous lectures, and an examination will be given the final evening.

Motion Picture Industry Seen Basically Strong

N. J. Blumberg, President, and J. Cheever Cowdin, Chairman of Universal Pictures, cite reduced foreign earnings and decline in domestic theatre attendance as temporary and a leveling off of abnormal peaks of 1946-47. Say economies have been effected to offset higher labor and material costs, which have now become stabilized.

The many factors of underlying strength in the motion picture industry often seem to be ignored in current appraisals of the industry's condition and outlook, J. Cheever Cowdin, Chairman of the Board of Universal Pictures Company, Inc., and N. J. Blumberg, President, assert in their analysis of the motion picture industry, which is contained in the company's annual report.

While "the immediate outlook in 1949 is for a further decline in dollar remittances" from the industry's foreign markets, the Universal pictures executives stated, "there is some reason to believe that we may be nearing the bottom of the trend."

J. Cheever Cowdin N. J. Blumberg

They pointed out that "prospects for an increased flow of dollar remittances are tied up with the improvement in general world economic conditions." The European Recovery Plan, the economic improvement in various foreign countries recently and the narrowing of the gap between U. S. imports and exports were cited as favorable developments.

The fundamentally favorable longer-term aspect of the foreign situation, they said, has been obscured by the immediate impact on the economy of the industry of the sharp drop in dollar remittances from abroad. They pointed out that "the current dilemma arises solely from a shortage of dollar exchange," and that American films actually are doing a very good business in foreign markets.

"In terms of popular demand and patronage by peoples throughout the world, American pictures continue to dominate overseas markets by a wide margin," they said. "This means that the American motion picture industry has tremendous earning-power in foreign markets which is dammed up temporarily through restrictions on the flow of dollar exchange."

The decline in domestic theatre attendance, Mr. Cowdin and Mr. Blumberg stated, "contrary to general opinion," was probably less than 10% last year as compared with 1947.

"This decline should probably be regarded not so much as a trend, but rather as a leveling off from the abnormal peaks of 1946-47," they declared. "National income continues high and current social trends toward a wider distribution of income and increased leisure time for the vast majority of people tend to stimulate recreational activities of which motion pictures are the most popular form."

Regarding television, they stated, that "while it is still difficult to tell what direction its development will take, it is reasonable to believe that, as in the case of radio, some form of collaboration between television and motion pictures will develop that will work out to the advantage of both industries."

Costs Becoming Stabilized

The two Universal Pictures executives pointed out that "the excessively high level of basic labor and other costs entering into the production and distribution of motion pictures has made necessary rigorous, industry-wide economies to offset the decline in both foreign and domestic revenues. The entire production industry is making every effort to effect savings wherever possible without sacrificing the entertainment value of the product.

"The results of these economies, however, will not appear to any important degree on the income statements for some time because of the fact that the industry still has a backlog of pictures made or committed for at high costs one to two years ago that will continue to have an adverse influence on earnings until they are entirely liquidated."

"At this time," they continued, "there are some indications of a stabilization of basic labor and material costs, which have been rising steadily for six or seven years."

Emphasizing that "only through the wholehearted cooperation of all groups in the producing industry, can the industry maintain its economic health," they expressed doubt "that any producing-distributing company, exclusive of its theatre operations, is making money today."

Mr. Cowdin and Mr. Blumberg emphasized that if people in the industry are to have security and opportunity for advancement, everyone in the industry must work more efficiently so that over-all productivity in the industry can be raised, costs lowered, and waste and extravagance eliminated.

Demand for Industry's Product Has Not Diminished

"The unemployment that has developed in Hollywood and in other sectors of the industry emphasizes the need for the industry to act promptly. Demand for the industry's product has not diminished, but the necessity for turning out a quality product at costs commensurate with present revenues has become imperative."

Cooperation of theatre-owners and exhibitors, in affording producers a proper share of revenues from a picture, and in promoting effectively the pictures shown, is particularly essential, Mr. Cowdin and Mr. Blumberg stated. They pointed out that, with exhibitors able to pick only pictures of known popular appeal, the production end of the business alone bears the major financial risk in making a motion picture, and in order to justify this risk, must be able to rely on a commensurate proportion of the revenues the picture earns.

They declared that "the current challenge to the motion picture industry is a serious one, but there is reassurance in the fact that the industry realizes what its problems are, and in the vigor with which it is attacking these problems.

"There is reassurance, too, in the way the industry has met and triumphed over other major challenges in the past—in the early 1920s, radio: then the transition from silent film to sound; the depression conditions of the 1930s, and the troubles of the early war years."

Moreover, the motion picture industry possesses certain inherent qualities of great basic stability, they pointed out. "Recreation is an essential human need—and the 'movies' provide this need in its most popular form," they stated. "Its appeal is to the whole family. It is inexpensive. It serves a huge mass market embracing every social and economic level. The demand persists in good times and bad. Experience in the last depression demonstrated that it is one of the last things that people will give up. It is a cash business, one of the largest. It is by nature flexible and can adjust itself within a reasonable time to meet changing conditions.

"American movies serve as ambassadors of good will throughout the world—they are the greatest salesmen of American ideals and goods yet developed. Their value is even greater in these troubled times in helping to rebuild faith among peoples in all lands."

Central States IBA Conference Scheduled

CHICAGO, ILL.—The thirteenth annual conference of the Central States Group of the Investment Bankers Association of America is scheduled for Wednesday and Thursday, March 16 and 17, at the Drake Hotel, Chicago, it was announced by Andrew M. Baird, A. G. Becker & Co., Incorp., Chairman of the Group.

Andrew M. Baird

More than 200 investment bankers, mainly from Illinois, Indiana, Iowa, Nebraska and Wisconsin, but from every other section of the country as well, are expected to attend. The conference arrangement are being handled by George S. Channer, Jr., Channer Securities Company, Chairman of the Group's Meetings and Entertainment Committee.

There will be a luncheon, addresses, and afternoon discussion meetings on both Wednesday and Thursday; a formal dinner Wednesday in honor of Hal H. Dewar, Robertson & Pancoast, San Antonio, President of the IBA, and an informal dinner and entertainment on Thursday.

Officers of the Central States Group for 1949 were recently inducted. In addition to Chairman Baird, they are: Hempstead Washburne, Harris, Hall & Co., Vice-Chairman; Richard A. Kebbon, Kebbon, McCormick & Co., Secretary-Treasurer.

Railroad Securities

One of the reorganized railroads that has been able to do a particularly good job in the postwar years has been Chicago, Rock Island & Pacific. A large number of the roads that were forced into bankruptcy during the depression of the 1930s but staged strong earnings comebacks during the war years, have again fallen victim to the basic weaknesses that brought on the financial crises in the first place. Not so Chicago, Rock Island & Pacific. This is one of the few roads in its class which have apparently emerged into the postwar era as entirely different properties.

Traditionally Chicago, Rock Island & Pacific had been a notoriously poor operating property. It was this inability to save any appreciable amount of gross revenues for net operating income that was largely responsible for the road going into bankruptcy in 1933. It was one of the earliest of the major carriers to succumb to the depression. The reorganization was long drawn out—it was consummated and the new securities issued only about a year ago. With this long relief from the necessity for making interest payments, and further aided by the war boom in earnings, the company was able to expend large sums on the rehabilitation of the road property. A particularly good job was done in the way of line relocations, reducing or eliminating serious grade and curvature problems. Also, considerable money was devoted to the purchase of new equipment.

The very substantial property expenditures of the bankruptcy years have been paying substantial dividends. Practically up to the outbreak of the war the road had a consistently narrow margin of profit. In 1935 it had a net operating deficit (very rare in the railroad industry) and in the subsequent five years, 1936-1940, it carried an average of only 5.4% of gross revenues through to net operating income before Federal income taxes. This was well below the industry average of 15.2%. During the war years the profit margin was above the showing of the industry as a whole. More important than the wartime showing has been the success of the management in keeping expenses under control in the postwar years of spiraling wages and fuel and material costs.

In the first full postwar year, 1946, the company carried 12.7% of gross through to net operating income before Federal income taxes. This was increased to 15.5% in 1947. The Class I average for the two years was 7.9% and 12.4%, respectively. Moreover, the 1947 transportation ratio of 38% was two points below the industry ratio of 40%. In the prewar year 1941 the road's transportation ratio had been more than a point above the Class I average. Detailed figures for the full year 1948 are not yet available. For the 11 months through November, however, the profit margin increased to 17.2% from 14.9% a year earlier.

Aside from the vast improvement in its operating status, the company has the advantage of a particularly conservative capital structure. At the outset the ICC imposed on the road about the most drastic debt reduction imposed on any major carrier in reorganization. Then with the war earnings the company was able to pay off some senior claims before consummation of the reorganization. Finally, in the year since the securities were issued the company has been very active in purchasing, and retiring, the income bonds in particular. Fixed interest nonequipment debt is down around $26 million and the income 4½s have been reduced to, or below, $35,377,600. This issue was originally planned at $80 millions and was actually issued in the amount of $74 millions early last year.

With the sharply reduced senior capitalization and the material improvement in the road's operating status, the common and preferred stocks have attracted considerable favorable notice from railroad analysts. There are 705,382 shares of the $5 preferred and 1,409,346 shares of the common outstanding. The latter has been on a $0.75 quarterly dividend basis but a more liberal policy appears distinctly possible over the intermediate term. Last year's share earnings are indicated about $11.40 against $9.29, pro forma in 1947.

Public Utility Securities

By OWEN ELY

Commonwealth & Southern

Commonwealth & Southern's dissolution plan is now before the Federal Court at Wilmington, and in the opinion of close observers a decision by Judge Leahy might be expected in February. While there is no certainty that an appeal to the Circuit Court will not be taken by the Snyder Committee, the heavy cost of printing the record might be a deterring factor. Assuming that the plan is approved before March 1, it might be in effect by May 1 or June 1.

The capitalization of the parent company now consists of a $9,000,000 bank loan, $144,125,000 $6 preferred stock (with arrears of $24,497,000), 33,673,000 shares of common stock and 17,589,000 warrants to buy common. The company will of course pay off the bank loan as quickly as possible, through dividend income and sale of miscellaneous assets. The preferred stock will be retired through an exchange package of Consumers Power, Central Illinois Light and cash. Common stockholders will receive an initial distribution of Southern Company stock, and possibly some of the Ohio Edison stock. It may be necessary to retain part of the Ohio Edison pending retirement of the remaining small bank loan through dividend income from that stock. No provision is made for the warrants.

The company's principal holdings now consist of the following common stocks of subsidiaries:

Shares—		Market Value	Esti. Value	Total Value (Millions)	Allocated Under Plan to Pfd.	Allocated Under Plan to Com.
4,035,000	Consumers Pr.__	33	--	$133	$133	--
800,000	Central Ill. Lt.__	--	33	27	27	--
2,052,000	Ohio Edison___	29½	--	60	--	$60
12,020,000	Southern Co.__	--	7½	90	--	90
	Total ________			$310	$160	$150

Central Illinois Light (wholly owned by Commonwealth) is assigned the same market value as Consumers Power, though this assumption may be on the conservative side. However, the stock may require some market seasoning before it sells higher than Consumers. In the 12 months ended Sept. 30 $2.91 a share was earned on Central Illinois Light, while Consumers Power earned $2.72 on the average number of shares, or $2.45 on the outstanding shares. Central Illinois Light is expected to pay $2 on its common stock, the same rate as Consumers Power.

Southern Company in the calendar year 1948 earned about 91¢ a share on a consolidated basis, it is understood. This is despite the sale of 2,000,000 shares to Commonwealth & Southern during the year 1948 (1,000,000 in the spring and 1,000,000 in September). Dividends at the annual rate of 60¢ a share are currently being paid on the stock, and it is expected that this rate will continue after the stock is distributed to the public; but if the present rate of increase in earnings continues, a higher dividend rate might be anticipated, perhaps in the second half of 1949. However, it appears likely that, under present market conditions, the stock might sell initially around 7½ to yield 8%. Eventually, with market seasoning and an increase in the dividend rate, a price around 9 or 10 might be anticipated.

The value of the package to be received for each share of preferred stock under the plan may be estimated as follows:

2.8 shs.	Consumers Power at 33________	$92
0.55 sh.	Central Illinois Light at 33________	18
	Cash ________________	1
	Total ________________	$111

The estimated value of the common stock package would be as follows:

0.06 sh.	Ohio Edison at 29½________	$1.77
0.35 sh.	Southern Company at 7½________	2.63
	Total ________________	$4.40

The 35/100 share of Southern Company will probably be distributed soon after the plan becomes effective, but part or all of the Ohio Edison may be withheld until the bank loan is entirely paid off. Commonwealth will have left (outside of the distribution to the common stockholders) some 32,000 shares of Ohio Edison and 324,000 shares of Southern Company, which it could sell for about $3,000,000. The company probably also has some cash on hand (in excess of the amount needed for the preferred stock package), despite a recent payment on the bank loan. Dividend income at present is accruing at the rate of about $1,750,000 a month, about half of which can probably be retained after expenses, taxes and preferred dividend requirements. Thus by June 1, allowing for possible cash on hand, the bank debt might be reduced to some $1-$2,000,000. Income from Ohio Edison (assuming that the full amount was retained) would yield about $300,000 a month after income taxes and moderate expenses. Hence on this basis it should not take many months to clear up the remaining bank loan, after which the Ohio Edison would be distributed to common stockholders and the company dissolved.

The preferred stock is currently selling around 97 and the common at 3¼-⅜. Assuming that the above estimates prove correct, appreciation possibilities would be about 14% for the preferred stock and 30% for the common—less expenses in both cases. If Southern Company be taken at a future estimated value around 9½ (a 70¢ dividend and a 7.4% yield), the value of the common package would approximate $5.09, making the percentage of potential gain about 56%.

Now Bailey & Davidson

SAN FRANCISCO, CALIF.—Effective Feb. 1, the firm name of Bailey, Selland & Davidson, Stock Exchange Building, members of the San Francisco Stock Exchange, was changed to Bailey & Davidson. A. L. Selland and Dudley Hayes have withdrawn from partnership in the firm, which has discontinued the San Jose office.

Aaron Clark Joins Staff Of First Investment Corp.

LOS ANGELES, CALIF.—Aaron C. Clark has become associated with First Investment Corporation of Los Angeles, 717 North La Cienga Boulevard, investment counsellors. Mr. Clark was previously with Selected Investment Co. and Daniel Starch & Staff in Chicago.

New Wellington Fund Executives Appointed

PHILADELPHIA, PA.—In Jan. 1949, Alvin J. Wilkins joined Wellington Fund, Inc., 1420 Walnut Street, on a full time basis as Vice-President in charge of National Distribution. He is, also, Vice-President and Director W. L. Morgan & Co., the National Distributor.

A. J. Wilkins

A. Moyer Kulp

Mr. Wilkins has been active in the distribution of Wellington Fund for many years and was primarily responsible for the initial program of national distribution of the Fund. During the war Mr. Wilkins served as an officer in the U. S. Navy. Now that he is acting on a full time basis he will be able to given even greater assistance to dealers in their sales. Mr. Wilkins has had extensive experience in training salesmen and helping dealers build productive sales organizations.

On Feb. 1, 1949 A. Moyer Kulp became Vice-President and Director of Wellington Fund. Mr. Kulp was one of the original officers and Directors of the Fund during the period from 1929 to 1937. Although Mr. Kulp was engaged as an independent investment counsel for the Fund for the past 10 years, he served as one of the key men on the Investment Committee since the Fund was established 20 years ago.

Mr. Kulp has had many years of experience in the financial and investment management field. Previous to his investment counsel activities he was for 10 years associated with two leading Stock Exchange firms. In his management capacity he has had a broad experience in the supervision of investment acccounts for Trust Funds, individuals and institutions, including banks, insurance companies, colleges, etc. He is a Director of the Financial Analysts Association (Philadelphia); a Director of industrial companies; and a Trustee of private Trust Funds. Mr. Kulp joins the Wellington Fund organization on a full time basis and will also serve as Executive Secretary of the Investment Committee and coordinate with Rawson Lloyd, Director of Investment Research, in expanding the well-established research and analytical contacts which Wellington enjoys.

During the past year Wellington has also added to its management organization Thomas F. Glancey, who was formerly associated with Main & Co., Certified Public Accountants. Mr. Glancey is an assistant to Mr. Joseph E. Welch, Executive Vice-President.

With Merrill Lynch

ATLANTA, GA.—Owen K. Olsen and William C. Crawford are now with Merrill Lynch, Pierce, Fenner & Beane in the Atlanta office, 23 North Pryor Street. Mr. Olsen was previously with the firm's New York office; Mr. Crawford was with them in Texas.

Frank Hardt Dead

Frank M. Hardt, partner in Montgomery, Scott & Co., Philadelphia, died at his home at the age of 69.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

A firm-to-buoyant tone continues in the government market, with investors still looking for securities in order to maintain income. . . . Reactions have been short-lived and very moderate, largely quote-downs, with very few securities appearing as prices softened. . . . It is indicated that large buying orders for all of the longer-term obligations are in the market and Federal is the only important supplier of these securities. . . . Some measure of the amount of the takings of high income governments by investors can be gathered from last week's sales by the Central Banks of issue due in more than five years, which exceeded $329,000,000. . . . The authorities may be running low on the eligible 2¼s and 2½s. . . .

Savings banks seem to be the leading buyers of long governments because of the increase in deposits which have been larger than was expected by most of these institutions. . . . Some of the smaller insurance companies and eleemosynary institutions have also joined in the quest for tap bonds. . . . The bank bonds still are the most sought-after issues with the longest eligible obligation again the market leader. . . . Volume in this security has been very sizable. . . .

TREASURIES VS. CORPORATES

Although the action of government bonds in recent weeks has been very satisfactory with rising prices and declining yields, corporate bonds appear to have made more progress (in the same direction) than Treasuries which should be the bellwethers of what takes place in the market for the highest-quality income-bearing obligations. . . . According to Moody's Investors Service, the average yield on AAA corporate bonds has declined from 2.87% on Oct. 28, 1948 to 2.71% on Jan. 27, 1949. . . . During the same period the average yield on long taxable government bonds, as reported by Moody's Investors Service, has gone from 2.45% to 2.41%, a decrease of not too great importance. . . .

In other words the yield spread in these averages between long Treasuries and the highest-grade corporate bonds has gone from 0.42 on Oct. 28, 1948 to 0.30 on Jan. 27, 1949, mainly through a sharp decline in yields of AAA corporate bonds. . . .

SWITCHING

The narrowing of the yield spread between long governments and the best quality corporate bonds has already brought about switching from the latter obligations into the Treasuries and there is little doubt that this trend will continue. . . . Savings banks have been among the most important institutions in this operation although many commercial banks are also taking advantage of the strength in corporate bonds to move into selected government issues. . . . One deterrent to more switches out of corporate bonds is the lack of breadth in the market for these securities. . . . Some institutions are following the policy of selling as many corporates as the market will take without disturbing prices too much and then buying corresponding amounts of Treasuries. . . .

World Bank bonds, especially the long maturity, are being used in the movement out of corporate bonds, with trust companies and some commercial banks going into this obligation in limited amounts. . . . There are many money market followers who regard the World Bank obligations as very attractive securities, particularly when compared with corporate bonds. . . .

LOANS CURTAILED

Although loans and mortgages are being made by commercial banks and savings banks, many more are being turned down than are being made because these institutions have become very careful and selective in their operations in this field. . . . There is not the same pressing need to get funds invested in loans and mortgages as in the past despite larger disbursements on savings deposits in many instances. . . . It is indicated that these institutions, for the time being at least, are in a position to carry on quite well from the revenue angle, by putting funds into government securities. . . .

It is believed that as long as it is possible to get a yield on Treasury obligations in excess of 2.15% the smaller commercial banks and savings banks can meet the larger payments on savings deposits and still have something to spare. . . . This probably explains to some extent the purchases that have been made recently by savings banks in the 2¼s due 1959/62. . . .

MARKET OPERATIONS

Demand for the partially-exempts is still good, with the out-of-town banks reportedly the largest buyers of these securities. . . . The 2¾% due 1960/65 is getting the lion's share of the buying although the 2⅞s due 1955/60 are being well taken. . . . The 2s of 1952/54 are going out of the market and price dips are just what many of these buyers are looking for, although not too many bonds have come in so far on the minor setbacks. . . .

Non-bank investors continue to be sellers of the eligibles on run-ups with the proceeds going into the taps. . . . However, the amount of bank issues that are available for sale outside of Federal seems to be quite limited. . . . The 2½s due 9/15/67/72 are now being bought by many banks that have been largely in shorts, with certificates and near-term bonds being sold in order to take on the longest eligible obligation.

Charles A. Clark, Jr., With Montgomery, Scott & Co.

PHILADELPHIA, PA.—Montgomery, Scott & Co., 123 South Broad Street, members of principal stock and commodity exchanges, announce the association with them of Charles A. Clark, Jr., as a registered representative. Mr. Clark has been active in the securities business since graduating from Harvard in 1920.

H. J. Kenny Co. to Open

H. J. Kenny & Co., members of the New York Stock Exchange, will be formed as of Feb. 10 with offices at 61 Broadway, New York City. Partners will be H. J. Kenny, Jr., who will acquire the Exchange membership of Mark A. Haas; William Bellinzoni, general partner, and Mary Jane Kenny, limited partner.

Criticizes Truman Budget and Tax Plans

Guaranty Trust Company of New York in current "Guaranty Survey" says burden of Federal taxes are heavier than in wartime and may reach 25% of national income, the limit of tolerance in our system of private enterprise.

The current issue of the "Guaranty Survey," published monthly by the Guaranty Trust Company of New York, analyzes President Truman's budget and tax proposals, and warns that with further increase in Federal taxation, "the limit of tolerance in a system of private interest" is being reached.

"The financial operations of the Federal Government," says the "Survey," "have attained such a magnitude that plans and prospects, as outlined annually by the President, are a matter of vital concern to the national economy. The estimates and proposals placed before Congress this month certainly do not make an encouraging picture. Nearly four years after the end of the war the country will enter a fiscal period in which the government's tax levy on the public, on the basis of existing income-tax legislation, is expected to be only 8½% below the wartime peak. Yet this tax load is expected to fall $873 million short of meeting expenditures, and in order to wipe out the deficit and provide a surplus for debt retirement the President recommends an increase of $4 billion in taxes, exclusive of about $2 billion of social-security taxes. Such an increase, on the basis of the official estimates, would result in a Federal tax burden heavier than any experienced in wartime. It is impossible to believe that in a budget of nearly $42 billion, more than three times the 1941 total, room cannot be found for savings sufficient to obviate the choice between a Treasury deficit and higher tax rates."

Answering the question "How High Can Taxes Go?" the "Survey" continues:

"The President is right in insisting that a time of large income and full employment is a time when the government should have a budgetary surplus and the national debt should be reduced. It does not follow, however, that the surplus must be obtained by raising taxes above the wartime level. The budget message describes the amounts of contemplated expenditure as 'minimum requirements' for the next fiscal year. But 'minimum requirements' is a relative term, the meaning of which depends not only on need for money but also on ability to supply money under existing conditions.

"The ability of our economy to supply money for governmental purposes has never been fully tested, but students of economic history have found reason to believe that, as a general rule, 25% of the national income marks approximately the limit of tolerance in a system of private enterprise. Federal, State and local taxation in the United States is now at about that level. In view of this fact, it might be appropriate to discuss budgetary estimates in terms of maximum capacity rather than minimum requirements."

Concluding the analysis, the "Survey" contends "it would be a disastrous mistake to let the abnormal conditions of the war and early postwar years lull us into a false sense of security concerning the taxpaying capacity of our economy. Already the intensity of demand is subsiding noticeably in numerous directions. If this tendency continues, as eventually it must, the ceiling of tolerable taxation will drop accordingly. No one can foretell at what point an annoying burden will become a fatal deterrent to enterprise; but that such a point exists is beyond question, and wise policy will certainly refrain from putting the matter to the test.

"The choice between higher taxes and a budgetary deficit is one that can and should be avoided. All that is required is adequate appreciation of the need for economy and sufficient determination to achieve it."

Contends "Welfare State" Throttles Incentive

First National Bank of Boston, in discussing President's social welfare program, holds if individual security is guaranteed on broad basis, there is no incentive to practice thrift. Says an economic system which provides high level of employment is more effective in providing social security than one encouraging malingering and loafing.

In the current "New England Letter," published by the First National Bank of Boston, there is an open attack on President Truman's blueprint of a welfare state.

"While Government officials have prepared blueprints that would revolutionize American life," says the "New England Letter," "no serious consideration is given to the cost of such a program or its impact upon our economy. It has been estimated that socialized medicine will eventually cost $7 billion a year, while the aggregate cost of the various phases of the social security program in a decade or two hence might ultimately amount to $20 billion, or roughly about $400 per family. Like other projects, this proposal starts with a modest sum set aside for the first year or so, and then, because of pressure for expanding coverage and more liberal payments, it grows like a snowball. This has been the experience of other countries that have tried the experiment. In Germany, per capita cost of health insurance rose 300% from 1914 to 1929, and in Great Britain, 250% during this period. In New Zealand, where the most comprehensive system has been adopted, the cost of the program now is five times as much as the original estimates at the time of its establishment in 1939. In that country social security payments absorb more than 35% of total governmental revenue, so that the cost per family averages around $210 a year.

"This 'welfare state' program is launched at a time when the boom has perhaps passed its peak and when our Federal debt is more than $250 billion, with incalculable but staggering future commitments scheduled for various purposes here and abroad. Judging from the past experience of other countries, our taxes are already as high as can be carried without an eventual break-down in our economy and a radical change in government.

"The fundamental weakness of the proposals put forward is that claims on future wealth for social welfare are multiplied manyfold, while at the same time the creation of new wealth is throttled by heavy taxes that severely restrict the flow of fresh capital into the purchase of the necessary tools and equipment that provide new jobs and increase production. So the net result is that larger slices of a smaller cake are allocated for protection against the vicissitudes of life.

"If security is guaranteed on a broad basis, there is no incentive to practice thrift, to save for a rainy day, or to provide for the future welfare of one's children. Instead it becomes an open invitation for the indigent and shiftless to indulge in malingering and loafing and to take a free ride at the expense of the rest of the population. But there is a point beyond which the majority would lack the incentive to put forth the necessary efforts to provide for the drones. Then a situation would be created whereby production would slacken, and there would be less and less to share until all would be on a subsistence level. Eventually the utopian scheme would be swallowed up in some form of totalitarianism.

"Social security and economic progress are not incompatible but are closely interrelated. The more effectively our economic system functions and provides a high level of employment, the less need there will be for welfare aids. So the emphasis should be placed upon making our economy tick. Toward this end there must be rewards for risk taking so that there is an adequate flow of funds back into business. Human nature being what it is, the prospect of individual reward based upon contribution to society is the mainspring of progress, and the release of individual energy under such a stimulus is the most creative force in the world. A favorable climate must be maintained for free enterprise so that business can face the future with confidence and faith, and thus be impelled to make long-term commitments that will furnish jobs, the only true source of security."

Chicago Bond Club to Hold Dinner, Election

CHICAGO, ILL. — The Thirty-Eighth Annual Meeting of the Bond Club of Chicago will be held at The Chicago Club, Thursday, Feb. 10, 1949. Cocktails, 6:15 p.m. and dinner at 7:15 p.m.

The Nominating Committee, John S. Loomis, Illinois Co. of Chicago; Edward C. George, Harriman Ripley & Co., and William A. Fuller, Wm. A. Fuller & Co., will submit the following for officers and directors for the coming year:

Alfred S. Wiltberger, Blyth & Co., Inc., President.

E. Cummings Parker, Glore, Forgan & Co., Secretary.

Austin Jenner, the First National Bank of Chicago, Treasurer.

For Directors, the officers and: Fred B. Carpenter, John Nuveen & Co.; Richard M. Delafield, the First Boston Corp.; Perry Dryden, Julien Collins & Co.; Walter J. Fitzgerald, Jr., Blunt, Ellis & Simmons; M. J. Hickey, Jr., Hickey & Co., Inc.; George L. Martin, Martin, Burns & Corbett, Inc.

The business meeting will be very short as the Committee, headed by James P. Jamieson, has some very unusual entertainment planned, which might be entitled "Bond Club Follies of 1948" or "The Journal of Comics Brought to Life." You can't afford to miss this—"To see ourselves as others see us."

Davies & Mejia Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Ethan Bernstein has been added to the staff of Davies & Mejia, Russ Building, members of the New York and San Francisco Stock Exchanges.

Hopkins With Raymond Hall

(Special to THE FINANCIAL CHRONICLE)

FRESNO, CALIF.—William H. Hopkins has become associated with Raymond E. Hall & Sons, Helm Building. Mr. Hopkins was previously with Walston, Hoffman & Goodwin, and E. F. Hutton & Co.

Securities Salesman's Corner

By JOHN DUTTON

The First Colony Corporation of New York we think has hit upon a real selling idea that is in keeping with the times. There are two attitudes that we can adopt in periods such as we have today in the securities markets. We can be pessimists, we can say the whole world is going to pot, we can curl up and quit. That is easy, anybody can be a defeatist. In fact, a lot of people do it every day, and some of them are in the securities business. Or we can look for a silver lining in the clouds and, because it IS ACTUALLY THERE, we can go out and **sell** it.

I want to get back to The First Colony Corp. and their idea, but before I do I'd like to expand this thought a bit further. After all if we are going to develop business today we have to have a STORY. We have to OFFER something out of the ordinary. When are there real bargains around? In the spring of 1946? In 1936 at the top of the bull market which was then getting ready to collapse? In 1929? Is it when stocks are selling at much above book value, at 10, 15 and 20 times average earnings for three to five years? Or is it when you can buy them in some cases at less than net-quick, at two, three, or five times earnings? What if earnings drop? What if business collapses? What if the U.S.A. goes totalitarian? What if the Russians bomb us? What if all the things that today are keeping millions of people on the sidelines actually do happen . . . AND THEY WON'T . . . but what if they do? WHEN YOU CAN BUY ASSETS IN ESTABLISHED COMPANIES THAT ARE THE BACKBONE OF THE GREATEST NATION ON EARTH FOR 50¢ ON THE DOLLAR AND OBTAIN 6% to 10% INCOME WHILE YOU ARE OWNING THEM . . . LET THE OTHER FELLOW KEEP HIS ASSETS IN DOLLARS. IF YOU ARE WRONG HE WILL BE TOO!

What if this sort of thinking is wrong? (I don't think so!) But, let us say for argument's sake that it could be. What then? You and I are in the securities SELLING BUSINESS. Securities are OUR MERCHANDISE. If we don't think our stuff is worth buying today then we should go out and sell something else! Isn't that so? Can you sell something you don't believe in? I can't! So, let us make up our minds to one thing. Either we believe that securities are the best BUY IN THE WHOLE COUNTRY TODAY BAR EVERYTHING, AND GO OUT AND SELL THEM LIKE WE HAVE NEVER SOLD BEFORE. . . . OR LET'S QUIT THIS BUSINESS AND SELL SOMETHING ELSE.

Now to FIRST COLONY and their presentation of bargains.

They took clippings from newspaper ads. . . . "Amazing." . . . "Sale." . . . "Priced far below the original wholesale cost!" . . . "Pre-inventory sale! Up to 60% off original prices." . . . "At reductions up to 50%." They reproduced these clippings upon a letterhead size page. They followed up with a story about bargains in securities. They wrote, "We too in the security business are merchants. We are not just order takers but we have an obligation to tell the public about the values available in the merchandise that we sell. That is why we are sending this letter to you." They listed nine stocks that they liked. They showed what one dollar could buy of net current assets, other assets, total assets, of each one of these companies. Like this:

ONE DOLLAR CAN BUY

	Net Current Assets	Other Assets	Total Assets
White Motor Truck	$2.39	$1.59	$3.98

Then they followed up on the next page with current market, 1948 dividends paid, and earning record for each year back through 1940 on all nine stocks. Then they concluded: "Seldom have investors been able to buy so much for so little cost. Not only can you buy an interest in some of the established corporations for less than their net working capital but you pay absolutely nothing for plant and equipment whose replacement value today generally would cost a great deal more than such assets are carried on the books of these companies. In addition, you have thrown in the good will value built up over many years at considerable expense but which has enabled these companies to achieve the earning power from which they pay dividends and increase their earning assets."

"Once the attitude of indifference on the part of investors gives recognition to these values, buyers who avail themselves of such bargains should be handsomely rewarded. If we have faith in the economic future of this country, we should invest in its industry. If we lack the faith then all we hold dear is lost."

A M E N !

With Standard Inv. Co.

(Special to THE FINANCIAL CHRONICLE)

PASADENA, CALIF. — Raymond J. Monjon has become affiliated with Standard Investment Co. of California, 117 East Colorado Street.

Joins Lester Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—George S. Wallace has joined the staff of Lester & Co., 621 South Spring Street, members of the Los Angeles Stock Exchange.

Sees Steel Demand Tapering Off

E. G. Grace, Chairman of Bethlehem Steel Corporation, says some cancellation of orders has already appeared and pressure of demand is definitely off. Fears "we have been building too much steel capacity."

In a press interview in New York City on Jan. 27, E. G. Grace, Chairman of the Bethlehem Steel Corporation, the second largest steel producer in America, expressed anxiety regarding the future demand for steel products, and said he feared "we are building too much rather than too little steel capacity." He mentioned there had been some cancellation of orders with his concern and though "our production schedule will be full through the first six months of the year, I don't know what will happen after that because the pressure is definitely off."

Eugene G. Grace

Discussing prices, Mr. Grace stated: "There can be no decrease in steel prices until there is a decrease in the cost of producing steel. I don't see anything in the picture today that in any way would contribute to lower costs of producing steel except two things: improving methods of efficiency and the fact that scrap prices have softened. We have to keep these steel prices."

E. Coe Kerr Dead

E. Coe Kerr, member of the New York Stock Exchange, died at his home at the age of 62. Mr. Kerr was senior partner in the former firm of Kerr & Smith, and has recently been active as an individual floor broker.

Analysts' National Body to Meet March 8

Afternoon and evening meetings of National Federation of Financial Analysts Societies will be held in New York City.

The second annual meeting and convention of The National Federation of Financial Analysts Societies will be held on Tuesday, March 8, 1949, in New York City. The sessions will comprise a luncheon meeting and afternoon round table conferences at Schwartz' Restaurant, 56 Broad Street, followed by a dinner meeting at the Statler Hotel. Authorities in various investment fields will address the all-day conferences. The luncheon meeting will feature a symposium on "The Outlook for the Securities Markets." The afternoon conferences will deal with the petroleum, public utility, construction and railroad industries. The general subject of the dinner meeting is "Looking Ahead."

Invitations to the annual meeting and convention are being sent to approximately 2,000 members of the Federation which comprise The New York Society of Security Analysts, Investment Analysts Club of Chicago, The Boston Security Analysts Society, Financial Analysts of Philadelphia and the Investment Statisticians Association of Los Angeles. New officers of the Federation will be elected at the annual business meeting which will be the first order of business at the convention.

Suggests Way to Expedite Steel Industry

Admiral Ben Morreell, President of Jones & Laughlin Steel Corporation, urges change in Federal Tax law that will permit the write-off of new equipment more rapidly.

A plan to help the steel industry modernize faster is suggested by Admiral Ben Moreell, President of Jones & Laughlin Steel Corp.

He proposes a change in the Federal tax law to allow companies to write off the cost of new equipment more rapidly than they may now.

"The change is needed," he said, because ". . . the present tax system doesn't take account of the rising price of equipment. We are allowed to make deductions for the higher costs of operating materials and labor. But the tax law gives us no relief for costs of plant and equipment and they have more than doubled.

"For all the apparent prosperity we have today," Admiral Moreell continued, "industries that are keeping pace with America are caught short of cash.

"What we have been able to lay aside for replacement," the steel company President explained, "does not begin to meet what we must spend for new plants.

"During the last three years Jones & Laughlin has spent $104,000,000 to replace and improve its plants. And we are already committed to spend $106,000,000 more in the next four years.

"We can't use yesterday's tools for today's work and be in business tomorrow," the Admiral declared.

Jones & Laughlin, like other steel companies, has borrowed vast sums for modernization and increasing capacity since the war's end, Admiral Moreell explained. The company has also drawn so heavily upon profits that ". . . the common shareholder is now receiving an annual return of less than 3% on the asset value of the stock."

"Our company will need more cash," he added, "and be assured that the problem is not ours alone.

"My proposal to meet this need is a simple one and a fair one for government and business alike.

"At present companies write off the cost of equipment over the period of its useful life. I suggest a change in the Federal tax law to allow them to write off or amortize the cost in shorter time.

"I propose that companies be allowed to write off up to one-half of equipment costs within one to five years, as they choose, and that they be allowed to deduct this amortization from taxable income.

"There should be a limit on the amortization deducted in any one year. I propose it be set at one-half the taxable income for that year before the amortization is deducted.

"Perhaps such a change should be considered a temporary measure to cover only the present period of need."

Admiral Moreell told how the change would have affected Jones & Laughlin if it had been law in 1948:

"Our profit for the year would have been cut $14,880,000 and our taxes would have been cut by $9,120,000. But this tax cut would have been only one-fifth of what we spent on plant in that year.

"Under this proposed change," Admiral Moreell declared, "the government would not lose tax money in the long run. Reductions during this period would be no more than a deferment of payment. If a company used up its tax deduction for write-off of plant now, it could deduct less from taxable income in future years. Uncle Sam would not lose. He would, in fact, gain because the nation's industry will be able to produce more and thus be able to pay more taxes.

"The nation as a whole would gain in stronger industries which would have a chance to build for emergencies. And stronger industries will assure protection of employment, production, and shareholders' investments."

The proposal was contained in a letter being sent to all J&L shareholders and employees. It closes with a suggestion that those who agree with the proposal should write to those who represent them in Congress and suggest that they support it.

C. J. Devine Appoints To Institutional Dept.

C. J. Devine & Co., Inc., 48 Wall Street, New York City, announces the appointment of John G. Matteson as manager of the firm's institutional investment department. Mr. Matteson has been with the firm since 1934 and has considerable experience in the handling of portfolio analyses of banks throughout the country.

The company also announces that Hallett Dolan, research and statistical analyst with the firm since 1934, and Albert C. Baur, formerly with Moody's Investors Service, will be associated with Mr. Matteson. Mr. Dolan originated, prepared and supervised the printing of the book on U. S. Government Securities issued by the firm for some years. Mr. Baur has been with Moody's since 1943 specializing in municipal investment ratings and portfolio analyses, particularly for banks.

San Francisco Exch. Standing Committees

SAN FRANCISCO, CALIF.—Douglas G. Atkinson, Chairman of the Board of Governors of the San Francisco Stock Exchange, announced the following appointments to Standing Committees of the Exchange for the current year:

Ethics and Business Conduct: Joseph Hauck, Chairman; John I. Dakin, Sherman Holescher, Walter A. Hamshaw and Harold B. Williams.

Floor Trading: Wm. R. Bacon, Chairman; Warren H. Berl, Harry E. Jonas, John C. Traylor, Joseph A. Johnson and Earl T. Parrish.

Finance: John R. Hooker, Chairman; Calvin E. Duncan, Palmer C. Macauley, Victor T. Maxwell and Elwin E. Purrington.

Listing: Paul A. Pflueger, Chairman; Robert M. Bacon, Stanley R. Dickover, Robert H. Scanlon, Robert E. Sinton, Lloyd C. Stevens and Frank Dunn.

Public Relations: Frank F. Walker, Chairman; George W. Davis, Albert A. de Martini, Mark C. Elworthy and Ferdinand C. Smith.

With John B. Dunbar & Co.

BEVERLY HILLS, CALIF.—Jerome Goldsmith is now associated with John B. Dunbar & Co. at their office located at 443 North Camden Drive.

George D. Baker Dead

George D. Baker, at one time connected with the Guaranty Company, died at the home of his son at the age of 82.

Reports Savings Bank Deposits Gained $612 Million in 1948

William L. Maude, President of National Association of Savings Banks, says savings now reach peak of nearly $18½ billion.

Mutual savings bank deposits gained $612,000,000 during 1948 to reach a new high of $18,400,000,000, according to a report just issued by William L. Maude, President, National Association of Mutual Savings Banks and President, The Howard Savings Institution, Newark (N. J.). "The gain was approximately one-third below that of 1947," Mr. Maude said, pointing out that "although total amounts deposited (excluding dividend credits) in 1948 were $50,000,000 greater than in 1947, withdrawals exceeded 1947 figures by $350,000,000."

William L. Maude

"An unusual feature of the year's activity," Mr. Maude added, "was the emergence of three distinct patterns of deposit growth, which followed in succession. During the first six months deposits gained $450,000,000, which represented a level one-fourth below that during the corresponding period of 1947. The mid-year inaugurated a sharp change, with deposit increases slumping to $63,000,000 during the third quarter, as compared with $192,000,000 gained for the same period in 1947. Despite the fact that national income continued at high levels throughout this period, people limited the amounts they placed in liquid savings, and the lull in deposit gains continued through October. Deposit growth in the last two months of 1948 recovered sharply, although remaining under the levels attained in 1947. The last quarter gain reflected this improvement, showing an increase of 60% over the third quarter. The proportion of the yearly gain occurring in the third quarter was relatively only half as much in 1948 as in 1947, but the proportion of the annual gain in the fourth quarter was the same in both years. In my opinion, the pick-up in the closing months of 1948 indicates that the mid-year slump was temporary and that savings may be expected to continue at levels well above prewar figures."

There are now nearly 19,000,000 accounts in mutual savings banks of which 14,600,000 are regular deposit accounts and the remainder are made up of the savings of school children and individuals in Christmas clubs and other special purpose accounts. The total number of accounts, both regular, school savings and club accounts rose by over half a million during 1948.

Further readjustment of the savings banks investment portfolios occurred during the year, reflecting increased demands for real estate and corporate financing, according to the report. Mortgage loans rose $696,000,000 or 14%, and corporate and municipal securities $481,000,000 or 28%. Funds for these purposes were obtained from the gain in deposits and the liquidation of $480,000,000 of U. S. Government securities. The 1948 changes compare with increases in 1947 of $[illegible]05,000,000 in mortgage loans, $223,000,000 in corporates and municipals, and $239,000,000 in U. S. Governments.

Lasdon to Direct Course at City College Evening Division on Credits and Finance

Under the direction of Oscar Lasdon, member of the New York Stock Exchange, and Associate Editor of "The Banking Law Journal," 15 courses covering every phase of Credits and Finance will be offered by the Evening and Extension Division, City College School of Business during the 1949 Spring Term, beginning Feb. 14.

The comprehensive program will feature a practical "learn-by-doing" approach to all courses. In the field of Credit, they include Mercantile Credit and Collection Management, Advanced Credit and Collection Management and Retail Credit and Collection Management.

Finance courses include Principles of Finance, Principles of Public Finance, Business Financial Management, The Securities Market, Investment Banking, Principles of Investment, Mathematics of Finance, and Economics of International Trade.

Students may register by mail for two additional courses, Contemporary Investment Problems, and Banking Practices. Mr. Rudolph L. Weissman, former consultation expert of the Securities Exchange Commission, and economist with Franklin Cole & Co., will instruct the investment course, and Mr. John F. Moynahan, New York State Banking Department, will teach the banking course. All mail registrations should be accompanied by a check or money order in the amount of $17.50, made payable to the Board of Higher Education, and must be completed before Feb. 4.

Personal registration will begin Feb. 5 from 11 a.m. to 3 p.m. and continue through the evenings of Feb. 5-10 from 6 to 8:30 p.m., in the Auditorium, City College School of Business, 17 Lexington Avenue, New York City.

Also available to prospective students, is the new Advisory Service which will provide free counselling on job opportunities and training requirements in the field. Applicants for training are interviewed by a counselor with years of business experience who will plan specific programs to meet the individual needs of each student. These specialists will give a realistic appraisal of the educational requirements necessary to break into or advance in the field. The Mercantile Credit Council will serve on the evenings of Jan. 27, Feb. 2, 3, and 8, from 6 to 8 p.m. The Retail Credit Council will offer their services Jan. 27, Feb. 2 and 8 at the same time.

All further information on the courses and advisory service may be obtained by writing to the Evening Session Office, City College School of Business, 17 Lexington Avenue, New York 10, N. Y.

D. J. Lambert Co. Formed

SYRACUSE, N. Y.—D. J. Lambert is engaging in a securities business from offices at 348 Forest Hill Drive, under the firm name of D. J. Lambert & Co.

L. V. Shaw Opens

FALMOUTH FORESIDE, ME.—Leigh V. Shaw is engaging in a securities business from offices on Edgewater Road.

Sees Silver Situation Unchanged

Handy & Harman, bullion dealers in 33rd annual review of silver market find industrial silver demand at peak but point out even at present high levels of consumption, support is required to absorb supply.

According to the 33rd annual review of the silver market by Handy and Harman, leading bullion dealers, silver consumption in 1948 reached a peak of 110 million ounces, or 10% over 1947 and the general situation in the silver bullion market has remained relatively stable.

"It has been demonstrated," states the review, "that industrial silver demand in the U. S., even at present high levels, is inadequate over a period of time to absorb all supplies offered without additional support. This support has once again come from the Bank of Mexico, and we believe that the bank's future policy will be the key to the 1949 market."

The review states the Bank of Mexico has given indication of a willingness to absorb the Mexican silver production for coinage purposes and "under these circumstances, we believe that the price of silver in New York will be maintained close to the present level. However, if the bank should withdraw its support and no compensating changes were to take place in the demand or supply picture, we cannot see how lower prices for silver can be avoided."

Double Taxation, Investment And Enterprise

(Continued from first page)

tors. They are thus driven to borrow from the insurance companies. But only the larger and well-established enterprisers can do much in this way. (And the insurance companies themselves are assailed for selling their government securities in order to make the loans.) Thus investment opportunity suffers. The threat of business recession hangs over us. In the end looms the possibility of Keynesian "stagnation"!

How the Government Destroys Private Enterprise

The reason for all this is clear enough. It is not lack of money or of savings. It is not lack of securities or desire to secure venture capital by selling stock. The reason is that the government is destroying the INCENTIVE TO PRIVATE INVESTMENT. (1) The savings of the people are being diverted into public debt. (2) Venture investment in common stock is being prevented. (3) Enterprise is being destroyed—that is, private enterprise.

As to savings, the debt-ridden government is doing all it can to force them into carrying its debt (bonds). One of the arguments is that if we reduce taxes on private profits, people will sell government bonds and buy stock. So, to protect the bond market, the government pushes people into its debt, and taxes heavily the income from private profit.

As to venture investment, the government is destroying the incentive to buy sound common stocks. This it does in several ways, but I can here mention only the heavy taxes on net earnings and dividends, and the threat of increased taxation. People who invest in stocks know that they are "venture" investors. They take business risks. These must be offset by high NET returns to them. But the government prevents this in two ways: First, it reduces the amount of earnings available for dividends by high taxes and high wages, and by creating uncertainty as to future taxes and wages. Second, it reduces the real return in the hands of the stockholder by taxing his dividend heavily (to say nothing of depreciating the currency in which the dividend is paid). To cap the climax, it takes 25% of any gain made if he sells the stock.

Finally, as to enterprise, we find the root of the evil. It is the Keynesian New Deal ideology concerning private profits and interest. This relies on government "investment" which includes almost any government spending. Thus a New Deal government dominated by Keynesian ideology does two things: (1) It puts HEAVY taxes on business to get its spending money. (2) It puts DISCRIMINATORY taxes on business to crush its private rival!

Here is the way it works. Suppose a $10,000,000 corporation has net earnings of $1,000,000. It has to pay a tax on this of say $380,000. Since the company must set aside funds for replacement and expansion (and keep prudent reserves for threatening new wage and tax demands), only half of the remainder can be paid out to stockholders, or $310,000. But before the stockholders can spend their dividends they must give up about 30% to the government, or $93 000.

Thus a double tax is imposed upon corporation profits. In this case, the stockholders who own the corporation, pay out of their net profits of $1,000,000, total income taxes of $473,000—nearly half.

Another result of the excessive double taxation of corporation profits is the demoralizing effect it has on management. Such taxes tend to demotivate enterprise. For one thing, when taxes are too heavy, so that the more it makes the more the government takes, the management is apt to feel that economy of operation is of less importance. The tendency is to put things into operating expenses that might otherwise be left out. Again, the officers and directors have less reason to be substantial stockholders in their own companies. They feel the burden of double taxation on their holdings, as do any stockholders. Thus the incentive that comes from holding an equity interest in the company, is lost. And I would add that possibly the rush for pensions and bonuses so evident in recent years might be less if officers felt that in stockholding they could securely provide for their future.

In the foregoing and in other ways, I am sure that the same double taxation which destroys the motive of investors to buy stock, also reduces the incentives of the management.

It is no wonder, then, that already we find the President of the United States in his message seriously proposing to extend the deadly hand of government subsidy to private corporations. It would be much more to the point to reduce the double tax burden on the profits of industry.

But your bureaucrat always wants to handle the money! To make 0, he would rather go through the motion of adding 2 and subtracting 2, than leave things alone at 0. His motto is "Better to have taxed and spent, than never to have taxed at all."

If we go further along this way, the corporation managements will advise their stockholders that they had better let the government take over.

The Remedy

The remedy for these evils of double taxation—the stagnation of the venture-capital market and the destruction of incentives to saving, investment and enterprise—is simple. All it takes is to look at the facts and get in touch with realities. What are these? The big outstanding one is the fact that the stockholders and the corporation are one, and that dividends are part of profits. Thus a tax on dividends is a tax on profits, and a tax on profits is a tax on dividends. Dividends and profits, being part and whole, have the same source. They represent enterprise, and equities therein.

Accordingly, the obvious procedure is to tax the common source. In the name of economy and common sense, I second the proposal that taxes on corporation net income be collected at the source and in one operation. We withhold the tax on the employee's wages. Why, then, should we not withhold the tax on stockholders' dividends?

Such a single tax would reduce cost of collection and loss through evasion. But far better than that, would it not make logically impossible the farce of taxing the same thing twice—once in the hands of the stockholders' agents, and once in the stockholders' own hands?

But at this point someone asks, what about the loss of revenue that would result from correcting this double taxation?

Aside from the answer that some might give, namely, let the government spend less, I have two observations: (1) By increasing investment and net earnings, the removal of the discriminating double-tax on profits would greatly add to the government's receipts from income taxes. There would be expansion of production and efficiency which would more than proportionately expand tax revenues of the nation.

In all matters of income, this is a law: Better a large income at a low price than a low income at a high price. Let the politicians learn from business: Better a large tax income at a low tax rate than a low tax income at a high tax rate.

This will be denied only by the radical reformer who seeks by taxation to prevent the private receipt of profits. But if such be the basis of this double tax on corporate profits, it is time for a Boston tea party!

(2) My second observation is that *discrimination* is an evil in itself. Even if the government were forced to forego a billion or so of spending for the maintenance of farm prices or the digging of the St. Lawrence ice way, the removal of this discriminatory double tax burden on investors and enterprisers, would be justified.

Profits of Enterprise Not Too High

In this connection, I often hear the charge that profits are exorbitant. The common thought is that profits, *after taxes*, are too high and that therefore we can not complain.

But this charge is unfounded.

Look at stock prices. They prove its falsity. If real profits were high, stock prices would be high. The following list of points will explain the situation to you.

(1) In each industry are several companies, all of which are required to supply the market. Some of these are less efficient and have higher costs than others. They make little or no profit. Prices have to be high enough to cover their costs, and this gives a bigger profit to others. But the big profit is necessary to induce the more efficient companies to use their capacity to the full, and thus reduce our dependence upon the high-cost producers.

(2) Inflation and the depreciated dollar affect profits as they do wages. The profit dollar is only 50 cents worth. Thus profits in dollars are only half as large as they seem.

(3) High prices make necessary larger charges for depreciation and larger allowances for expansion of plant and equipment.

(4) Socialistic government policies hurt the stock market, and make it impossible to finance growth by selling stock. Thus corporations have to finance expansion out of net earnings.

(5) Heavy double taxation makes it necessary to pay high yields to keep stockholders. About 30% of dividends, and 15% of profits, goes to the politicians at Washington through *personal* income taxes.

The low price of stocks compared with dividends reflects the fact that the dividends themselves are low in REAL VALUE. The low value of dividends is, in turn, due to two facts, namely, (1) dividends are uncertain and (2) the dividend dollar, like other profit dollars, has depreciated on account of inflation. The dollar in dividends is worth about 50 cents in terms of what money used to be. A $4 dividend is only worth $2 in purchasing power, or say 50%. As a result of this, it takes a yield of 8% *merely to be equivalent to a normal 4%.*

A stock that used to sell at $50 and pay $2 in dividends was on a 4% basis. Today, the same stock still sells at $50, but has to pay $4 in dividends, which puts it on an 8% basis. But the $50 price represents only $25 worth, and the $4 dividend represents only $2 worth, which is 8% on $25.

Keynesian Economics

I charge that the foreign economics of Lord Keynes dominates the politicians in power at Washington, and that the Keynesian ideology is hostile to private saving, to private investment, and to private enterprise. These have been the three pillars of American economic democracy. The means used to sap these pillars are fiat currency, the "easy-money policy" (now called debt management), and discriminatory taxation. Not the least of these curses of Keynes is the double taxation of venture capital and free enterprise. It is slowly destroying business.

Keynesianism is doing worse things than kill the *rentier*—the small saver. It is killing investment opportunity. Soon all that will be left will be "the government"—the place where those who fail in business, go.

Bennett, Spanier Elects Two New Officers

CHICAGO, ILL. — Bennett, Spanier & Co., Inc., 105 South La Salle Street, announce that Pat Spanier has been elected Vice-President of the firm and Hans R. Buhrow, formerly with Paul H. Davis & Co., has been elected Treasurer.

World Bank Grants Loan to Brazilian Traction

Third grant to a Latin American country is for $75 million, payable in 25 years and guaranteed by Brazilian Government. Funds to be used for hydro-electric development. Profits of bank in last half of 1948 above $4,800,000.

The International Bank for Reconstruction and Development announced on Jan. 27 it had granted a loan of $75 million to the Brazilian Traction, Light & Power Company, Ltd. The purpose of the loan is to assist in financing the expansion of hydroelectric power facilities and telephone installations in Brazil. The loan is guaranteed by the United States of Brazil.

The loan is for a term of 25 years and carries an interest rate of 3½%. The bank will also charge a commission of 1% annually to be set aside in its special reserve fund, in accordance with the Bank's Articles of Agreement. Amortization of principal will begin on July 1, 1953, and is calculated to retire the loan by maturity.

The loan is in accord with one of the Bank's main purposes—namely, to encourage the development of productive facilities and resources in member countries. This is the third time the Bank has granted loans for development purposes in the American Republics. Previously the Bank had approved loans of $16 million for hydroelectric and agricultural development in Chile, and loans of $34,100,000 for electric power development in Mexico.

The Brazilian Traction, Light & Power Company, Ltd. intends to purchase with the loan proceeds substantial amounts of equipment in the United States, Canada, the United Kingdom and Continental Europe. The Canadian Government has given its approval to the use by the Bank in its loan operations of up to eight million Canadian dollars out of Canada's subscription to the Bank's capital. The Government of the United Kingdom has given its approval to the use by the Bank of up to £500,000 out of the United Kingdom's subscription to the Bank's capital. It is the intention of the Bank to disburse these amounts in connection with purchases eligible under the loan agreement to be made by the company in Canada and in the United Kingdom respectively.

With these authorizations a total of four member nations, including the United States, have approved the use of their currencies paid in as part of their capital subscriptions. In August, 1947, the Belgian Government agreed to the Bank's use of the equivalent of $2 million in Belgian francs. The Bank hopes to obtain in the future further authorizations from its members, thereby broadening the international character of the Bank's operations.

* * *

Bank's Net Profits Increase

On Jan. 31, The International Bank for Reconstruction and Development reported that it had a net profit for last-half of 1948 of $4,804,057 as compared with $439,925 for the last-half of the preceding year.

Gross income amounted to $12,735,974 as compared with $7,474,878. In the period ended Dec. 31, 1948, commissions amounting to $2,444,629 of the gross income were set aside in the Special Reserve, bringing the total as of that date to $5,529,559. A commission of 1% per annum has been charged by the Bank on all loans made by it.

During the six-month period disbursements on loans aggregated $29,032,107, bringing the total disbursements as of Dec. 31, 1948 to $499,087,858 since the Bank began operations in 1946. Since December 31 this total has been increased to more than a half billion dollars. Total loan commitments as of Dec. 31, 1948, were $525,000,000. This figure since that date has increased to $634,100,000 as a result of loans for electric power development in Mexico and Brazil.

Factors in Trend of Interest Rates

(Continued from page 6)

modities are scarce to such an extent that they are hampering productive efficiency, in such a situation to add to current savings by an expansion of bank credit only leads to inflation and rising prices. This situation has been apparent in many lines of industry during the past two years and particularly in the housing industry. An attempt was made to put more money into housing than there was building materials to build houses or laborers to erect them. This attempt has been one of the vital factors in pushing upward the prices of residential real estate.

In an article on "The Cost of Credit and Capital" in the March 1948 Federal Reserve Bulletin, it is openly admitted that bank credit was being substituted for capital on a large scale and that this substitution contributed to the general rise in prices. The Federal Reserve has always been honest about this situation.

Money Supply Excessive

Our money supply is still excessive, in spite of the price rise and the increase in total production that has taken place since the war began. It will, no doubt, continue excessive for years to come and be a potential danger to our price structure. The stupendous growth in these items should always be kept in mind. During the years 1942-1945, the money supply (that is, total demand deposits, adjusted, plus currency in circulation outside banks grew from $48.6 billion to $102.3 billion). No one wants to criticize the way the war was financed. More of it, I think could have been done from savings than was the case. But on the whole, the job was not bad.

It is the increase in the money supply that has taken place since the war that is the cause of criticism. Certainly a large proportion of this increase was not necessary and the evil results which will follow from it will be with us for years. The willingness to permit interest rates to rise faster than they did and abandonment of the pattern of interest rates on which the war was financed would have prevented a good deal of this increase in the money supply.

Little attention is paid to the fact that in spite of the Treasury surplus during the last two years, the money supply increased over $11 billions from the close of hostilities to the close of 1947. At that time it reached an all-time peak of $113.6 billion. It is true that the application of Treasury surplus in the first quarter of 1948 to the retirement of Federal Reserve bank held debt reduced the money supply to approximately $107 billion, but since March of last year, the money supply has increased again until it reached nearly $110 billion at the close of the year. Is there any wonder that prices have risen? There was no increase in production comparable to this increase in the money supply.

During the period since the close of hostilities, bank loans were increased by nearly $17 billions and non-bank investors sold nearly $7 billions of Treasury securities, the ultimate purchaser of which was the Federal Reserve banks. Business investment was exceeding current savings at a tremendous rate. This should have called for a much greater increase in interest rates then took place and these increases would have occurred had not the Treasury and the Federal Reserve so stubbornly protected the prices of long-term government bonds at par. It must not be forgotten also that during this period of time, the Treasury had a net cash operating surplus of approximately $13½ billions and still the money supply increased by over $7 billions. Without this cash surplus, one shudders to think what might have taken place to our price structure had our monetary authorities stubbornly continued to follow the policies which they pursued in 1947 and 1948.

Means of Stopping Inflation

What business investment is in excess of current savings, three things are called for if inflation is to be stopped. (1) Business borrowing must be made less attractive through increasing its costs. (2) Savings should be made more attractive through increasing its rewards, and (3) the price of government securities should be permitted to decline so that there would be less incentive to substitute them for corporation bonds and real estate mortgages. Not one of these three things was permitted to take place in 1947 and 1948 to the extent that was necessary to stop the inflationary boom. And today the cost of living is about 72% higher than it was immediately preceding the war. It may not cost any more to service the public debt because of the low interest rates but it certainly costs more to live.

Recently the Secretary of the Treasury said in defending the bond support program that if the interest rate was permitted to go up, it would increase the cost of servicing the public debt. This is an obvious statement that I assume no one would wish to dispute. But if the Secretary intended to convey by his statement that the maintenance of our artificially low interest rates was a net gain for which no one had to pay the cost, then it was indeed a misleading statement.

The advocates of low interest rates from the inception of our cheap money policy in 1932 have always assumed that the burden of low interest rates was mainly felt by the wealthy classes and some how or other were an aid to the poor. One of them once told me in discussing this question, "The rich have the money don't they? The poor borrow it. Is it not obvious that this reduces the burden of the poor at the expense of the rich." Nothing could be farther from the truth.

Low Interest Impact of Life Insurance Costs

This is shown clearly when one studies the impact of low interest rates on the cost of life insurance. The ownership of life insurance is not centered in the rich. The average policy, even excluding industrial life insurance is not large and the billions of life insurance in force in this country is owned by the rank and file of our average ordinary citizens. Anything that increases the cost of life insurance is a burden which the average man has to bear.

Recently, we had our actuaries prepare the net costs for a term of 20 years on an ordinary life insurance policy issued at age 35, based on the premium and dividend scales in force in 1929 for the ten largest participating companies, excluding industrial companies, doing business in the State of New York. We had them prepare a similar cost for this type of policy and for the same companies according to the premium and dividend scales currently in force. We found that the cost of insurance on the account of the reduced interest rate alone had gone up 21%.

But this is not the whole story as to the increase in the costs of insurance by any means. If the insured wants to provide the same monthly income for his beneficiary, he must now carry more insurance than he did in 1929 because of the lower interest rate that the insurance companies are able to pay on money left with them.

The increase in the cost of providing a given number of dollars of income to a beneficiary through insurance is really astonishing. I shall illustrate the cost of maintaining enough Ordinary Life insurance issued at age 35 so that if the insured dies during the twentieth policy year when his wife is age 55, she will be guaranteed a monthly income of $100 a month for life with ten years income certain. This is a typical settlement option producing a somewhat smaller income if the insured dies earlier and a somewhat larger income in the event of later death. Using the averages for the same ten companies previously mentioned, in 1929 it would have been necessary for this purpose to buy a $17,500 policy, the net cost of which for 20 years, according to 1929 premium and dividend rates, would have been $6,178, or an average of $309 per year. Today, to provide the same number of dollars of income, the policyholder would have to buy $22,950 of life insurance, the net cost of which for 20 years, according to 1948 rates, would be $9,823, or an average of $491 per year. In short, the cost of providing such a life income has increased 59%.

This 59% increase in the cost of providing a life income of the same number of dollars is a fair measure of the impact of lower interest earnings on those policyholders who buy life insurance for the income it will produce. Substantially all of this increase in cost is due to lower interest rates. Although there has been a considerable improvement in mortality during this period, the net effect of such improved mortality is quite small; for it operates in the direction of reducing the cost before the death of the insured and then in the direction of increasing the cost after his death because of the greater longevity of the beneficiary as well as of the insured. The 1948 Life Insurance Fact Book, published by the Institute of Life Insurance, shows that expenses over this period had increased by only 3% of the premium and interest income; hence little of this increase in cost is due to higher expense rates.

Nor can this 59% increase in the cost of providing the same number of dollars of monthly income be dismissed with the statement that it is just part and parcel of the general increase in the cost of living and is typical of the increase which has taken place in the general price level.

In order to provide the same quantity of food, shelter and clothing that was provided by an income of $100 a month before the war, it is now necessary to provide an income which, when expressed in dollars, is increased in proportion to the increase in the general price level. In other words, the policyholder who wants to insure his wife an income for life sufficient to provide the same quantity of food, clothing and shelter, must now not only provide a larger number of dollars of monthly income —larger in proportion to the increase in the general price level —but each dollar of such monthly income now costs him 59% more than it did 20 years ago. In short, he must carry about 70% more insurance and at a 59% increase in cost.

This 59% increase in cost is the measure of the added burden on a large and increasing number of policyholders due solely to the reduction in the interest rate, a reduction which, incidentally, is due largely, if not solely, to the low interest policy of our Federal Government. Verily, someone pays the price for low interest rates even if the Treasury does not. All too often, I am afraid, it is going to be the widows and orphans who are the principal beneficiaries of life insurance policies.

Why Interest Rates Should Rise

While for the next few months or as long as current business activity may recede, the outlook is for no higher, but even lower, interest rates, in the long run I believe that we are in a slow gradual upward movement of the interest rate that may last for a decade or longer. I base this opinion upon the fact that at present we are in a capital hungry world. Not only does much of the Western World still lie in ruins and must be rebuilt if any reasonable standard of living is to be regained, but the rapid advances made industrial technique during the past decade is making a demand for huge sums of capital. The long-term secular problem in this connection seems to me to be scarcity of savings, rising prices and inflation, rather than oversavings, abundance and deflation.

Moreover, all the social and political trends today seem to be working to increase consumption at a rate faster than output can be increased. The emergence of the social welfare state with all its manifold schemes for raising the standard of living of the masses and at the same time cutting down their hours of labor, plus the threat of war which is calling for the expenditure of stupendous sums on armaments, makes the prospect of a long-term upward movement in prices almost inevitable. As one surveys the world, what could be more apparent than that the masses of mankind are striving for a standard of living which the present capital equipment of the world is inadequate to furnish. In essence, labor governments such as are now in force in Western Europe are attempting to guarantee their peoples a standard of living higher than they can afford. This is the basic economic reason back of the so-called "Shortage of Dollars."

How is it ever going to be possible to meet these world-wise demands for higher living standards? It is not obvious to any economist that it can only be done by increasing the rate of investment. The world needs more capital goods not less. Consider the case of British industry. Here we find it generally admitted that practically all her factories need to be re-equipped with more modern tools of production if the standard of living for her people is to be maintained. The so-called backward nations of the world want to industrialize. The industrial revolution will again be on the march to these nations in a year or two. Is is not obvious that all these processes are going to call for more savings rather than less and is there much chance that the capital needed to bring them about can be forthcoming from any other place than America.

No Surplus of Capital

Moreover, these demands are being made at a time when there is no surplus of capital in this country. In order to finance itself here, industry during 1948 retained for that purpose approximately 65% of their total net earnings only paying out 35% to their stockholders. One cannot help but wonder what American industry would have been compelled to pay for its capital had it paid out all its earnings to its stockholders and then made the attempt to finance its expansion and re-equipment by calling on the money market for the funds. Looked at from this angle, money was not so cheap in 1948 after all.

This now brings us to the role that the interest rate should play in an economic situation such as I have just described. In a world characterized by a capital scarcity, there are only three ways that the available capital can be distributed. (1) By rationing. This lets the government decide what industries are to be expanded and how much. It may not be the road to serfdom, but it certainly is the road to Socialism. No free enterprise system can long endue with capital distributed in this manner. (2) The interest rate can be permitted to go up. This lets the market place decide who is to have the available capital and trusts the workings of the price system to determine what industries are to be expanded. It is the way of economic liberty, free enterprise and democracy. (3) Control the interest rate but do not ration capital. This permits bank credit to be substituted for savings. It insures continuing inflation, rising prices and the ruination of the middle class. It is the easiest and, I regret to state, the most likely method to be followed in a country politically organized as ours. Moreover, it is the road that we have been following during the last few years.

In short, I believe in the long run this country as well as the rest of the Western World is caught up in social and political circumstances that makes our most pressing long-term economic problem that of maintaining a stable value for our currency. Two many of our economists are still living in the atmosphere of the 30's when oversaving appeared to be our problem. In spite of the growth of insurance, our masses are not saving enough. They are being lulled into a false security by our plan of Social Security.

In spite of the fact that we hear a good deal about the excess revenues that are collected on account of social security taxes, and the market that these excess revenues are supposed to make for our government bonds, it is still a simple fact that the financing of social security as it has been operated from its inception has not made for any substantial savings or capital accumulation. True, more has been collected in payroll taxes than has been paid out in benefits. But the fact remains that the so-called reserves (the government bonds in the trust funds that we hear so much about) are not government assets, but government liabilities. If the benefits are paid, as now promised, future generations will have to provide the money to pay the promised benefits.

No one apparently deems it advisable to tell the public in unmistakeable terms that from the outset of social security, taxes have been on the average only about one-third of what they should have been if the system were to be operated on an actuarial basis. Here is accumulating a heavy unrecorded and unfunded debt for old age and surviviors insurance that is not shown on the Treasury books. Would it not seem from all this that the long-term secular monetary problem facing the country is scarcity of capital, rising prices and inflation, rather than oversaving, stagnation and declining prices, and does not such an overall economic situation make for rising interest rates rather than declining ones?

Conclusion

Bearing in mind that the money market will continue to be controlled during the coming year just the same as it was in 1948, any material change in interest rates on the up side is very unlikely. Do not plan on it. When one considers with what reluctance our monetary authorities permitted interest rates to rise during the past two and one-half years, when the demand for new

funds for business invesment far exceeded the supply of savings, you can be certain that these authorities will not do anything to make interest rates go up if the demand for business investment should decline. And there probably will be some decline in business investment during 1949. It is with regret, therefore, that I feel compelled to tell you that barring such increased armament expenditures as may once again put the forces of inflation to work, there is little or no chance of an upward movement in the interest rate for the coming year.

Moreover, if the the business pattern for the months immediately ahead is one of readjustment, if the total volume of private construction declines as now seems likely and if inventories stop increasing and there is some slackening in the overall rate of business activity, then interest rates will tend to move downward. Moreover, I believe that if a situation should come to pass where there is considerable volume of unemployment, and this is possible, it is my further belief that the monetary authorities will again take positive steps in one way or another to make money cheaper in order to stimulate private lending and investing.

The outlook for the interest rate, therefore, depends upon the outlook for business and the movement of prices. If the upward movement of prices is stopped and there is no longer any danger of inflation, the upward movement of interest rates will also cease. On the other hand, if prices continue their recent decline, if unemployment should increase and the rate of business activity slow down, interest rates will decline. The government's economists, including the President's Council of Economic Advisors, apparently do not know which of these events to prepare for and so, to be on the safe side, they are making ready a program to meet either contingency.

For myself, I am working on the assumption that neither inflation nor deflation will be very marked during 1949. I am inclined to believe that business activity will remain at a high level in spite of the soft spots that will appear from time to time. More and more industries during the year will go through a period of readjustment, both in the volume of their business and in the price of the products which they turn out. Government expenditures will increase somewhat over present levels, but not materially. The effects of the increase in government expenditures should just about offset the decline in private business outlays.

It is my belief, therefore, that the pattern of interest rates will not change materially during the coming year. Long-term government bonds will continue to sell a little above par, good grade corporate bonds around 3% and rates on mortgage loans will continue about where they are at the present time.

The long-term economic outlook, however, is still for higher rates. There will be a world scarcity of capital for years ahead. Social and political trends are overstimulating the propensity to consume at the expense of savings. The commitments, expressed and implied, of our present Administration makes inflation still the long-term danger. But whether rising interest rates will be permitted to correct the situation, no one at this time can tell.

The State of Trade and Industry

(Continued from page 5)

least one oil company which had not expected to be able to get certain types of pipe until much later this year was offered tonnage for spring delivery. This is not uniform with all companies, but it is a fact that involves at least one major company.

Executives of another oil company told "The Iron Age" that they hope to be up on their tough pipe requirements by the middle of this year. This is a surprising statement since many oil concerns in the past have had orders on the books running into 1950 and beyond. Furthermore, oil and gas firms have been heavy supporters of the conversion markets.

"The Iron Age" this week reaffirms its report of Dec. 15 that: Output of steel and steel demand will be heavy for at least the first half of this year. All signs this week point more than ever to this outlook, but, concludes "The Iron Age," signs do not point to a serious and precipitous drop in steel output during the greater part of 1949.

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 100.9% of capacity for the week beginning Jan. 31, 1949, as against 101.1% in the preceding week, the new rate at the start of 1949. The Institute reports the schedule of operations is down 0.2 point, or 0.2% from the previous week.

This week's operating rate is equivalent to 1,860,100 tons of steel ingots and castings compared to 1,863,800 tons a week ago, 1,802,500 tons, or 100% a month ago, and 1,694,300 tons, or 94% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

CARLOADINGS TURN LOWER IN LATEST WEEK

Loadings of revenue freight for the week ended Jan. 22, 1949, totaled 709,585 cars, according to the Association of American Railroads. This was a decrease of 23,687 cars, or 3.2% below the preceding week and a decrease of 61,554 cars, or 8% under the corresponding week in 1948. It also represented a decrease of 112,343 cars, or 13.7% below the similar period in 1947.

ELECTRIC OUTPUT ATTAINS NEW ALL-TIME HIGH RECORD IN WEEK ENDED JAN. 29

The amount of electrical energy distributed by the electric light and power industry for the week ended Jan. 29 was estimated at 5,810,034,000 kwh., according to the Edison Electric Institute. This represented an increase of 41,100,000 kwh. above output in the preceding week; 380,832,000 kwh. or 7.0% higher than the figure reported for the week ended Jan. 31, 1948 and 1,032,827,000 kwh. in excess of the output reported for the corresponding period two years ago.

AUTO OUTPUT MAKES FURTHER SLIGHT GAINS IN LATEST WEEK

Production of cars and trucks in the United States and Canada for the past week was estimated to be 115,512 units compared to 113,820 (revised) units in the week preceding, according to "Ward's Automotive Reports."

Ward's estimates that January car and truck production will reach 460,500 units, with 332,000 cars and 112,500 trucks to be built in the U. S. and 8,400 cars and 7,600 trucks in Canada. The agency's prediction for February is a total output of 448,500 units.

Output in the similar period a year ago was 101,044 units and in the like week of 1941, 124,400 units.

Last week's output consisted of 84,202 cars and 26,950 trucks built in the United States and 2,258 cars and 2,102 trucks in Canada.

BUSINESS FAILURES OFF SLIGHTLY

Commercial and industrial failures dipped to 136 in the week ending Jan. 27 from the preceding week's postwar peak of 142, Dun & Bradstreet, Inc., reported. While casualties exceeded the 91 and 52 which occurred in the comparable weeks of 1948 and 1947, they were considerably below the prewar total of 385 in the same week of 1939.

Failures involving liabilities of $5,000 or more declined to 110 from 128 last week. They stood at 69 a year ago. Small casualties with liabilities under $5,000 increased to 26, the highest in any week since 1943 and were well above the 14 in the previous week.

The Middle Atlantic States reported an increase in failures to 41 from 33 in the preceding week. This region had more casualties than in any other week in the past five years. Slight increases occurred in the Pacific States which had 38 as compared with 36 and in the New England States which had 20 as compared with 16. All other regions reported a mild dip in failures.

FOOD PRICE INDEX AT LOWEST LEVEL IN OVER TWO YEARS

Further weakness in foods and farm products last week lowered the Dun & Bradstreet wholesale food price index for Jan. 25 to $5.91, its lowest point since the ending of OPA controls, more than two years ago. To find a lower index, it is necessary to go back to Oct. 8, 1946, when the index registered $5.40. The current index fell 1.8% from $6.02 a week ago. It is 19.7% under the July 13, 1948, high of $7.36 and compares with $7.17 on the corresponding date of last year, or a drop of 17.6%.

Lard, cottonseed oil, hogs, lambs and rye turned slightly upward this week, but these advances were more than offset by declines in flour, wheat, corn, oats, beef, hams, butter, cheese, sugar, cocoa, beans, currants and steers.

Index represents the sum total of the price per pound of 31 foods in general use.

COMMODITY PRICE INDEX SHOWS FURTHER RECESSION IN LATEST WEEK

The general level of prices, as measured by the Dun & Bradstreet wholesale commodity price index, averaged slightly lower last week, closing at 264.42 on Jan. 25, as compared with 266.13 one week earlier, and with 301.01 on the corresponding date a year ago.

The latest index represents the lowest point touched in a year and a half, or since July 15, 1947, when it stood at 264.02.

Grain markets were irregular and somewhat unsettled; price movements were narrow with the trend generally downward, mainly reflecting large stocks of grain still in farmers' hands. The CCC was an active purchaser of corn during the week, but buying of wheat was small. Applications for government loans on corn continued in good volume. The outlook for the new winter wheat crop was reported improved by moisture in the dry sections of the Southwest. Flour prices were fairly steady. Domestic demand for bakery and family flours remained slow throughout the week. The export flour market was quiet at the week-end.

There was a somewhat steadier undertone to prices for lard and vegetable oils toward the close of the week. Earlier in the period, liquidation in lard futures sent all deliveries to new low levels for the season, with the cash article dropping to 14.20 cents a pound, the lowest since June, 1945. Stocks of lard were said to be mounting steadily as the result of continued heavy hog marketings. In slow trading, hogs continued to weaken as prices dipped close to the season's low points.

Heavy marketings forced beef steers sharply lower for the fourth consecutvie week with average prices reported at the lowest since May, 1947.

Cocoa prices touched new lows for 1948-1949, reflecting weakness in producing countries and reports of lessening demand for chocolate products.

Although movements in the cotton futures market were somewhat irregular last week, spot prices and the nearby months developed a stronger tone and rose moderately over a week ago. Spot quotations at New York advanced 65 points to close at 33.91 cents a pound, which compared with 35.10 on the like date a year ago. The main supporting influence was attributed to short covering and price-fixing against previous sales of the staple to foreign countries. Domestic demand was more active and mill buying showed some increase. Export trade was quite active with sales reported in moderate volume.

The Bureau of the Census reported consumption of cotton during December at 681,000 bales, somewhat less than had been anticipated. This contrasted with consumption of 685,000 bales in November and 755,000 in December, 1947.

Cotton ginnings from the 1948 crop reported at 14,141,789 bales, as against 11,384,700 from the 1947 crop ginned to the same date last year. Stocks of all cottons on Dec. 31, as estimated by the New York Cotton Exchange Service Bureau, amounted to 12,646,000 bales, of which the government held about 3,950,000 bales, or 31%.

RETAIL AND WHOLESALE TRADE MAINTAINED AT HIGH LEVEL IN LATEST WEEK

With mark-down sales continuing in many areas, shoppers bought slightly more than in the previous week and total retail volume in the period ended on Wednesday of last week slightly surpassed that of the similar week a year ago, states Dun & Bradstreet, Inc., in its current review of trade. Although most shoppers were apparently more selective than in recent years, clearance sales of many goods were fairly successful.

As special promotions continued to attract shoppers, retail apparel volume remained steady at a very high level.

Consumers responded favorably to mark-down offerings of women's winter coats, scarfs, sweaters and hosiery. The sales volume of men's apparel increased fractionally as overcoats, suits and dress and wool shirts were presented at price levels acceptable to many shoppers. There was a slight rise in the demand for shoes.

Housewives slightly increased their food purchases the past week and retail food volume closely approximated that of the comparable week last year. The consumer interest in low-priced meat cuts rose slightly. There was a slight expansion in the demand for fresh fruits and vegetables. Bakers' goods were sold in an increased volume. There was no marked change in the consumer demand for frozen foods and canned goods.

Shoppers continued to reveal a keen interest in furniture. The traditional February furniture promotions began in many areas. Medium-priced occasional items sold in an increased volume. The sales volume of television sets rose slightly with some offered at moderately reduced prices. There was no appreciable change in the retail volume of electrical appliances and small radios from the limited levels of recent weeks. Household soft goods continued to be leading items in many sections.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 2 to 6% above that of a year ago.

Regional estimates varied from the corresponding levels of a year ago by the following percentages: New England up 4 to up 8, East up 4 to up 7, South and Pacific Coast up 1 to up 5, Midwest up 2 to up 6, Northwest down 1 to up 3, Southwest down 4 to unchanged.

The volume of wholesale orders in the week continued close to that of the preceding week with total dollar volume dipping fractionally below that of the comparable week a year ago. The number of buyers attending many wholesale markets decreased noticeably during the week, but was more than half again as large as that in the similar week last year.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Jan. 22, 1949, showed an increase of 2% from the like period of last year. This compared with an increase of 5% (revised) in the preceding week. For the four weeks ended Jan. 22, 1949, sales increased by 4% and for the year to date by 5%.

Here in New York retail sales volume the past week dipped below the comparable period one year ago with department store sales estimated at close to 6% under last year's business.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Jan. 22, 1949, advanced by 1% from the same period last year. In the preceding week an increase of 5% (revised) was registered over the similar week of 1947. For the four weeks ended Jan. 22, 1949, a rise of 2% was recorded over that of last year and for the year to date volume increased by 4%.

Business Implications of National Security Programs

(Continued from first page)

clear to you what I mean by the words, "the National Security Programs." A first answer is that, for my purposes here and on my own responsibility for so classifying them, the National Security Programs consist of the following budgeted programs:

(1) The National Military Establishment;

(2) The Stockpiling Program;

(3) The International Aid Programs;

(4) The Atomic Energy Commission;

(5) The Merchant Shipbuilding Program;

(6) Economic Readiness Measures in the Federal Budget for (a) expansion of power generating facilities; (b) construction of strategic highways; (c) modernization of Federal airways; (d) exploration and development of scarce minerals; (e) development of certain strategic areas; (f) development of synthetic fuels; and (g) others of a like nature.

II

What are the amounts involved?

What, it may be asked, do these programs amount to? Let us, then, examine the figures on new obligational authority and estimated expenditures for fiscal 1949, which ends June 30 next; and similarly the figures on recommended new obligational authority and estimated expenditures for fiscal 1950, or the year beginning on July 1 next, from the Budget Message of the President submitted to the Congress on Jan. 10, 1949. These figures, with increments indicated are shown in the accompanying tabulation.

I am unable in this tabulation to include figures for economic readiness measures because of the difficulty of differentiating between developmental and construction programs included in the budget for national security reasons and those included solely because of their peacetime contributions. Most of such programs, in fact, have both national security and peacetime justification, but no criteria are available for earmarking each such proportion. It is clear, however, that economic readiness measures of the sorts indicated in my earlier listings must amount to several hundreds of millions, and possibly to one-half billion.

For example, the natural resource programs (exclusive of the Atomic Energy Commission) and the transportation and communication programs (exclusive of the shipbuilding program) call for estimated expenditures in Fiscal 1950 of $2.6 billion. It may well be that one-fifth of that total finds a national security justification.

Disregarding these economic readiness measures, because of the uncertainties referred to, what are the magnitudes involved in the National Security Programs? New obligational authority for these programs for Fiscal 1950 has been recommended by the President at $23.2 billion. Estimated expenditures for Fiscal 1950 aggregate $21.8 billion, or an increase over the estimate for Fiscal 1949 of $2.2 billion. It must be noted that the cited figures include $800 million in recommended obligational authority and $600 million in estimated expenditures for universal training, a wholly new program not yet approved by the Congress. On the other hand, it must also be noted that the cited figures contain no estimates for the probable cost of providing military supplies to Western Europe and to certain other countries, for which purpose the President stated in his budget message that he intended later to request funds.

In summary, it seems safe to assume that expenditures for the National Security Programs in Fiscal 1950 will amount to not less than $22 billion and that these expenditures will represent an increase over the level for the current fiscal year of at least $2 billions and probably more.

III

What is the significance of these magnitudes?

How may we assess the significance of an expenditure of $22 billion? One way is to note that this sum represents 52.5% of the estimated total of the expenditure side of the Federal Budget for Fiscal 1950. Still another way is to note that $22 billion amounts to 8.7% of the Gross National Product for the calendar year just closed, i.e., 8.7% of the total value of all the goods and services produced by the Nation in Calendar 1948. It is clear, then, that the aggregates we deal with in the National Security Programs are of very material significance to the economy. Likewise, the stated increment of $2 billion or more is significant in itself and gains in significance when it is known that this increment must be superimposed on an economy operating at a high level, particularly in those industries most intimately affected by National Security Programs. Moreover, it must be pointed out that the President in his Budget Message has put the Congress and the Nation on notice that, even to maintain the present program, "Defense expenditures . . . are expected to be higher in 1951, as a result of expanding programs now under way and the large orders already placed for aircraft, ships, and other material and equipment, which will be delivered and paid for in the next few years." And on the subject of military supplies for Western Europe and certain other countries, the President stated that, "It is not possible now to predict accurately what will be needed . . . ." That uncertainty, for Fiscal 1950, can surely be no less uncertain for later years. Here, again, we may face a rising trend.

BUDGET AUTHORIZATIONS AND ESTIMATED EXPENDITURES FOR SELECTED NATIONAL SECURITY ACTIVITIES

(Fiscal Years—In Millions)

	*New Obligational Authority			Estimated Expenditures		
	1949	1950	Increment	1949	1950	Increment
National Defense—						
Nat'l Military Establishment	†$13,782	†$14,516	$734	$11,330	$13,136	$1,806
Activities Supporting Defense:						
Stockpiling	835	525	—310	350	525	175
Universal Train'g (proposed)	0	800	800	0	600	600
All Other	41	36	—5	65	7	—58
Total, National Defense	†$14,653	†$15,877	$1,219	$11,745	$14,268	$2,523
International Affairs and Finance (Mostly foreign aid and foreign relief)	8,892	6,349	—2,543	7,219	6,709	—510
Atomic Energy Commission	662	792	130	632	725	93
U. S. M. C. Merchant Shipbuilding Program	136	170	34	26	121	95
TOTAL	$24,348	$23,188	$1,160	$19,622	$21,823	$2,201

Source: The Budget of the United States Government for the Fiscal Year Ending June 30, 1950.

*New obligational authority includes actual and recommended net new appropriations and other authorizations (e.g., contract and loan authorizations), and excludes appropriations to liquidate prior year contract authorizations. †Includes $2.9 billion (largely aircraft) for 1949 program provided in fiscal year 1948 supplementals; excludes $279 million being made immediately available in fiscal year 1949 to cover increased cost of completing authorized naval ship construction program, which is included in fiscal year 1950 figures.

NSRB/OPP—January 20, 1949.

IV

What are the basic factors in analyzing the impacts of these National Security Programs?

In the interest of economy of time, I shall merely state briefly the factors which I regard as salient:

(1) We have experienced "full employment" or near-capacity operations in our economy for about seven years. For the first half of that period, we must admit that this full employment was brought about by war, and not by our cleverness. And what of the second half of this seven-year span, or the past 3½ years? Although I am willing to impute to national policy its appropriate share of the credit, I am convinced that objective analysis must point to the aftermath of World War II as the primary influence. What do we mean by this aftermath of war? Just two things: (a) The enormous accumulated shortages at the end of the War of both capital goods and consumer goods; and (b) The unprecedented volume of money savings from the War period which made it possible to convert these unsatisfied wants into effective demand.

Aiding and abetting those aftermath-of-war influences has been the technological revolution that has occurred in certain fields, notably in elecronics and in the chemical industries. This technological revolution is in part itself an aftermath of war, since it represents in part the application to peacetime industries of the telescoped progress of science under the impetus of war. This technological revolution has represented the practical utilization over a brief period of the scientific and engineering developments that have been accumulating since the 1929 crash.

(2) The present and prospective National Security Programs, with their rising trend, must be superimposed on an economy operating at near-capacity levels. In short, there is little slack in manpower; no slack in raw materials, because the capacity of our industrial plant to chew up raw materials has grown so much faster than the supply of raw materials; no slack in plant capacity in our basic industries of primary import to National Security Programs; not much slack in prices, particularly in fields primarily affected by National Security Programs; no slack in the Federal Budget; and no slack in the Federal debt of $252 billions. a larger share of goods already

(3) The psychology of rising national security expenditures must be taken into account. We still have vivid memories of the recent past, and each increase tends to lead to expectations of more to follow.

V

What are the problem areas in the National Security Programs?

Here again, time permits only a brief summary statement.

(1) Problem of inflationary pressures. Despite the fairly general belief that the major inflationary influences have largely spent their force, the National Security Programs for fiscal 1950 will develop some additional inflationary pressures: (a) operating through monetary mechanism since these programs generally will add to the money incomes of consumers but subtract from the supply of goods available for purchase by consumers; and (b) operating through market processes since these programs will require in short supply, such as steel, ferro-alloys, and non-ferrous metals.

(2) Problem of manpower. The President's recommended program for the National Military Establishment involves no material increase for Fiscal 1950 in full-time military personnel or in civilian personnel.

It is estimated that the maximum incremental demand for both direct and indirect manpower of the National Security Programs in the aggregate will be in the neighborhood of one-half million workers. Against this incremental demand it must be noted, for Calendar year 1949, the expected addition to the labor force will be about 800 thousand workers; the corresponding expected increment for Fiscal 1950 is expected to be somewhat smaller, between 700 thousand and 800 thousand. In summary, it can be said that the expected increment to the labor force will, in the aggregate, more than take care of the incremental demand for manpower for the National Security Programs. Thus, on an overall basis the National Security Programs will create no manpower problem. It is likely, however, that there will be manpower problems affecting specific skills since to a large extent the indirect manpower demands will be for skilled workers, some of whom are in tight labor supply fields.

(3) Problem of shortage of materials and basic plant capacity. There are bottlenecks today in steel, ferro-alloys, non-ferrous metals, coking coal, electric power, and power-generating equipment. But these are the fields in which the security programs will have their greatest impact, either through maintenance of present pressures or through stepped-up pressures. In consequence, demand pressures will be felt in these fields unless counteracting measures are taken. It must be noted, in particular, that materials are even scarcer than dollars. We can raise taxes or incur deficits, but little can be done over the short term to increase scarce materials. Apart from stockpiling needs, the impact of the National Security Programs on materials is moderate in most instances. The stockpiling program, however, will exert significant pressure on the supply of a number of criticial materials chiefly certain ferro-alloys and non-ferrous metals. The real pressure on steel supply will continue to come primarily from the civilian economy, including the security-supporting voluntary agreements programs.

(4) Problem of controls. Controls are repugnant to the whole concept of a price system or to the normal market procedures of a peacetime economy. But the hard question we face is whether we can attain our National Security Program objectives without some selective controls; or whether we can do so only at the cost of inflation in certain markets and the consequent disruption of price relationships.

What are the possible controls that may have to be resorted to? Mandatory allocation of selected critical materials, reinforced by limitation and conservation orders, would probably be among the first. The voluntary agreements program under Public Law 395, 80th Congress, will doubtless be extended, pursuant to the President's recommendation, but this program may not suffice. The voluntary agreements are subject to a basic weakness in that they operate on only one end of the scale of demand; that is, the introduction of each new preferred program results in setting aside an increased part of a limited supply, thus intensifying the scramble among non-preferred consumers for the remaining supply. In my judgment, the principal advantage of mandatory allocation powers would be the impetus they would give to voluntary arrangements.

Selective price and related wage controls may be necessary, in the words of the President in his Economic Report, to "encourage voluntary adjustments without the actual imposition of price controls." The President added that "it is in this spirit that I would administer the authority."

Certain fiscal controls, including higher taxes, appear highly probable as a concomitant of the enlarged National Security Programs.

To recapitulate, the analysis thus far supports the following generalizations:

(1) The national security programs will involve Federal expenditures of at least $22 billion in fiscal 1950, or an increase of at least $2 billion over the level of the present fiscal year.

(2) These programs in the aggregate reflect rising trends over the past two years, and it has been indicated that higher totals are in prospect for fiscal 1951.

(3) The impact on materials will be moderate generally, apart from the stockpiling program, which will, however, exert significant pressure on the supplies of certain ferro-alloys and non-ferrous metals, which will continue to rise in fiscal 1951.

(4) The real pressure on steel supplies will continue to come primarily from the security-supporting voluntary agreements and from the civilian economy generally.

(5) The national security programs will in themselves pose no serious manpower problems, except possibly as regards some specific skills.

(6) The national security programs must be appraised as part and parcel of a current high-level economy and one which is particularly active in the industries most affected by national security expenditures; and the rising trend in these expenditures must be weighed against the current lessening of inflationary pressures in some parts of the economy.

VI

What is the rationale of the National Security Programs?

I should like next to consider the broader aspects of the National Security Programs in their bearing on business planning. In his Budget Message to the Congress, the President has made clear the concept of the national policies which we are following. For example, he stated that "The principal objective we should have in mind in planning for our national defense at this time is to build a foundation of military strength which can be sustained for a period of years without excessive strain on our productive resources, and which will permit rapid expansion should the need arise." He has likewise referred, in discussing the large international items in the Budget, to the "strong economic support we are extending to the free nations of Western Europe, whose recovery is the key to continued independence and to safeguarding freedom in many other parts of the world" and that "our investment in European recovery will repay us many times in terms of increased strength and improved organization for peace." With reference to his intention later to request funds for providing military supplies to Western Europe and certain other countries, he added that "in existing circumstances, economic strength is not enough to assure continued independence to free peoples."

At this point let me reiterate and emphasize that the opinions and interpretations expressed in this presentation are my own and are made on my personal responsibility. This caveat applies with special force to what I shall say from this point on. It must be clear to all the world that the American nation is not preparing for war. Only an aggressor nation that has made the decision to wage war can direct all its energies to ward preparation for war. A free society, on the other hand, can plan only for those measures

which are determined to be necessary for mobilizing its resources in the **event of war.** Nor does the conscious national decision to plan against the contingency of war carry any implication whatever that war is inevitable or even probable. On the contrary, I think it is abundantly clear that the fundamental program of the American government is one of planning for peace, not war. Despite the allocation of more than half of the Federal budget for what I have defined as National Security Programs, it must be emphasized that our total national activity is overwhelmingly dedicated and directed to the requirements of a peace-time economy and a world at peace. For this comparison, the National Security Programs of $22 billion must be compared with a gross national product in excess of $250 billion. Government, business, labor, agriculture, and the professions alike must recognize that our basic strength lies in our moral and economic potential and that our continued emphasis must be in the direction of strengthening this moral and economic potential.

VII

Where does the National Security Resources Board fit into this picture?

The National Security Act of 1947 established the National Security Resources Board and assigned to that Board the statutory function of advising the President concerning the coordination of military, industrial, and civilian mobilization, including advice to the President on certain specific matters having to do with effective mobilization of resources in the event of war and with certain economic readiness measures against the contingency of war. Thus these functions make of the National Security Resources Board an economic mobilization planning agency set up to advise the President. It is important to note that the Board has no operating functions in the governmental sense of the term: its duty is to advise the President.

I should like to make clear the distinction between mobilization and mobilization planning. In dictionary terms, mobilization is defined as the "act of assembling, equipping, and preparing military and naval forces for active hostilities." It is scarcely necessary to say that the American nation is not engaged in mobilization; nor are we preparing for mobilization. Mobilization planning is quite another matter.

Economic mobilizating planning may be defined as the process of estimating the requirements or needs of war; of appraising the resources or means which would be available for meeting these needs; of measuring deficiencies revealed by the comparison of needs with means; and of determining the steps necessary to balance needs with means—all to the end that there may be available well-articulated plans for mobilizing the resources of the Nation in the event of war. It is important to stress the words "in the event of war." We are not engaged in planning "for war"; rather, we are planning against the contingency of war.

The philosophy of mobilization planning, both military and economic, rests on the premise that a state of preparedness is one of the means of lessening the likelihood of an aggressive attack against the Nation and at the same time one of the means of increasing the likelihood of winning a war, if the Nation is forced into war. In the uncertain world in which we live, we can with prudence do no less than to take appropriate steps to improve our economic readiness position against the contingency of war and to lay plans for the rapid and effective mobilization of our resources in the event of war.

Mention should be made also of another related national security agency—the National Security Council—which was also established by the National Security Act of 1947. The National Security Council, consisting of the President, the Secretary of State, the Secretary of Defense, the Secretaries of the three Armed Services, and the Chairman of the National Security Resources Board, has the function of advising the President with respect to the integration of domestic, foreign, and military policies relating to the national security, in order to permit more effective cooperation among the departments and agencies of the government in matters involving the national security.

For the long run I am convinced that the policies and activities of these two Presidential advisory agencies in the field of national security will have a profound impact on business planning. Through these policies and activities we may, I believe, look forward to the continuing formulation and strengthening of positive programs through which the American people can exercise effectively and constructively the role of leadership among the free peoples of the earth which Providence and history have now assigned to us.

It is incumbent upon us to discharge the obligations of this leadership through positive programs aimed at maintaining intact the heritage of free societies and at the ever-widening extension of the area over which free societies prevail. Likewise, our policies must be positive and affirmative toward the ever-widening enlargement of economic and political freedom, here and abroad. These policies, in my judgment, will call for our leadership in furthering a world-wide extension of scientific, economic, and management techniques through which standards of living throughout the world may be elevated.

Government must spearhead this positive program, but industry, labor, finance, agriculture, and the professions must participate in its planning and in its execution. And, above all, this program must be fitted within the framework of our free institutions and must conform to the logic of our system of fundamental freedoms.

Let me repeat then that, for the long pull, I regard these broader aspects of our National Security Programs as far more profound in their impact on business planning than the specific programs now before the Congress.

Outlook for Building Materials

(Continued from page 17)

ber prices a principal contributor to inflated building costs. However, lumber supply is beginning to catch up with the demand. As in the case of many other materials there are signs that lumber prices have reached their peak. For instance, the seasonal drop in prices this winter began earlier and went deeper than in recent years.

Steel Production

The steel industry has made an impressive postwar record of increasing output. Based on figures for the first six months of 1948 the Industry's production of finished products last year exceeded the wartime high of 63 million tons. Year-end reports from the Industry indicate that almost 90 million tons of raw steel were produced during '48 and that this figure will be surpassed in 1949. The monthly average shipments of fabricated structural steel were 38% higher for the first seven months of 1948 than the corresponding seven months for the five-year average of 1936 to 1940.

This increased production is the direct result of the work done so far on the Industry's $2 billion postwar improvement program. This industry-wide drive to expand capacity will be completed by the end of 1949 and, at that time, the domestic mills should be capable of producing approximately 97 million tons of raw steel and more than 70 million tons of finished items annually.

Increased demand for non-construction uses, however, imposed heavy drains on the steel-producing industry during 1948. It is estimated that consumption of steel products of all kinds by the Construction Industry amounted to only 13% of the total 1948 output.

The availability of steel products for construction in 1949 will depend on several factors, particularly the continuance of the voluntary allocation program and the development of the defense program. However, steel leaders say at this time that most steel items, including sheets, pipe and fabricated structurals will be available in adequate supply during this current year. They make this statement in spite of the fact that no slackening of demand is foreseen.

The fabricated structural steel industry, which has the facilities to fabricate and erect well over 2 million tons of steel in 1949, is currently operating with a backlog of contracts for the next six months in excess of 1 million tons. Observers in this industry have noted a falling off in demand for steel for new industrial structures, but they point out that stores, office buildings, public buildings and highway bridges will more than make up for this.

Steel prices have not increased beyond the general level of commodity prices. In fact, during 1947, the wholesale price of structural steel was only 25% higher than it had been in 1939. In July of 1948 it had risen to 48% above the '39 level.

The aluminum industry, through its association, indicates that the supply of its materials will remain tight and may be even tighter during 1949. This belief is based on the shortage of electric power available and the ever-increasing demand. Primary aluminum which sold for 20c a pound in 1939, has followed a unique course in the past several years. In 1947, it was 15c a pound, but in 1948 it rose first to 16c and later to 17c a pound. Further increase may be necessary, but the industry is not able to state, at this time, what will happen.

Miscellaneous Materials

In most other materials, the outlook is brighter both in respect to supply and price. Authorities in the copper industry expect that consumption of their products will continue on as high a level as in 1948. However, despite government stockpiling and the Foreign Aid program, it appears that sufficient material will be available in '49 for industrial uses, including that needed for fabrication of building materials. The industry's output in '48 was double prewar and leaders expect this trend will continue. The price of raw copper, now 23½c a pound, is expected to remain at that level throughout this year, indicating that no increase in price of copper building materials is now anticipated.

Cement production in 1948 reached an all-time high, exceeding estimated consumption by from 3 to 8 million barrels. This figure can be stated despite the fact that there were reports of local shortages which produced gray markets in several parts of the country. In 1949, the cement supply should be adequate to meet construction needs, although again shortages may prevail in some local areas until the problems arising out of the Supreme Court decision on basing point prices have been resolved.

Cement prices, although somewhat unpredictable because of this Court action, have remained fairly stable over recent years. The 1947 level was only about 26% over 1939 and, in July, the index showed an increase of about 43% over 1939.

The supply of gypsum board and gypsum lath, which was considerably short of current needs in 1947, increased materially during 1948. It is estimated that the combined output of these two products reached more than 5 billion feet in 1948, against prewar total of 2.7 billion feet.

This industry, of which my Company is a part, has increased its board capacities 95%, all of which is now in production. It is safe to say that both gypsum board and lath will be in fairly easy supply this year.

Plaster was in short supply during the past year in many communities. New capacities have now been completed, sufficient to raise the supply around 50% above prewar. This commodity should be available in sufficient amount to meet demands for the current year.

Materials produced by my Company, such as gypsum, lime, insulation, metal lath and acoustical treatments have advanced in price an average of 36% over prices at which they sold in 1939. Manufacturing costs are now fairly well stabilized and unless labor rates go up, prices for these commodities should continue at about their present levels.

The Department of Commerce reports that average monthly shipments of all asphalt roofing materials during the first six months of 1948 were about 1½ times as large as shipments during the average month in 1939. However, shipments have fallen off slightly from 1947 levels. The first six months' total of 42 million squares was 1 million short of the total for the same period in '47.

Most producers are making prompt shipment and it now appears that sufficient asphalt roofing will be available for all construtcion needs in 1949. Prices for asphalt roofing remained steady during late 1948 at about 10% higher than the 1947 level. No increases are indicated for this type of roofing.

Wages Question

While gathering information for this discussion I was struck by the frequency with which industrial leaders, despite their general optimism about high output and lower price, warned about two influences that might turn their plans awry. First of all, it was repeatedly said that the determination to hold prices down in '49 would be defeated by any material demand for higher wages by mine and mill workers. As one spokesman, my friend Donald Dallas, Chairman of the Board of Revere Copper & Brass, puts it, "this moderately optimistic view becomes possible if we assume that comparative tranquility will exist on the labor front."

On the other hand, if wage increases become general during 1949, we will be faced with further increases in the price of materials. Basic industries such as steel have adopted a policy of compensating every cost increase, such as higher wages, with corresponding price increases. Steel prices, for example, were about 15% higher at the end of 1948 than at beginning of the year.

The second warning that industrial leaders have emphasized in recent weeks is that the outlook for increased availability of materials is clouded by uncertainty over the domestic and foreign political situation. We must expect that both the European Recovery Program and the defense program will cut into the supply of materials available to the construction industry. We must also carefully watch for the effects of possible Congressional action on such matters as subsidized housing, price control and government allocations.

This survey on the outlook for building materials in 1949 would be far from complete if I did not discuss at least briefly the new and improved products which are new available. Many of these were designed to bring about more efficient building and to reduce the cost of the total structure.

Already, builders have noted savings in time and money resulting from the use of such materials as ready-mixed cement, lightweight aggregates, and pre-finished flooring. During the months ahead, further gains will be made through the wider acceptance by manufacturers of a common four inch unit of dimensions. This will permit the assembly of materials of different sort without the cost for cutting and waste. Already available in modular sizes are such materials as brick, tile, sash and doors, wallboard and rock wool insulation.

As materials become more abundant during 1949, the effect of these improvements and of others still to come will become more and more evident. It will become clear that the materials industry, by greatly increased capacity, by the diversion of millions of dollars to research for better quality and the lowering of costs, is doing a tremendous job to maintain a high level of construction.

Housing Construction Must Increase

To properly house our people, construction must continue for the next several years at levels even higher than the $18 billion record for last year. Except for possible shortages of materials and labor required in the plants, mines and forests, the materials end of construction is ready to meet most any situation you may require.

The producers of materials recognize there is a big job to reduce costs. Through installation of material handling machinery, plant extensions, new processes and other technical improvements, many manufacturers have been able to keep prices comparatively low.

And, when appraising future trends you should keep in mind that there are certain fixed elements in cost, such as wages, high freight, fuel and something more than 40 cents of each dollar profit in taxes. It is not my purpose to defend present prices. I would, however, point out that future prices must include these inflationary elements and provide fair compensation for the goods and services.

We can be proud of the record the construction industry has established in these three postwar years. Despite criticisms from all sides, we, in the construction field, have done a tremendous job in meeting the needs for this country's biggest and most varied building program.

I can assure you the producers of materials will continue research for new and less costly materials and to find more economical methods. With these and the vast experience gained in meeting past emergencies we will be your allies in your efforts to give the American people the best in construction.

Finally, you need have no misgiving about ability of the building industry to keep Americans the best housed people in the world.

As We See It

(Continued from first page)

a stomach for them. The general tenor of these measures is quite enough to condemn them both.

In broad outline the enactment of this labor bill would lift virtually all restrictions on mass picketing—unless the injured parties, often in no way involved in the dispute, can find some way to have ordinary State and local laws enforced as they have not been able to do in the past; unions could henceforth refuse, as some of the more arrogant of them have done, to bargain at all, although employers have no such immunity; unions could with impunity demand pay for their members for work not performed; whatever freedom of speech was provided for employers by the Taft-Hartley law would be taken from them at the same time that the existing virtual exemption of unions and their leaders from many of the responsibilities that free speech is supposed to impose would remain in full force and effect; the old combination of closed union and closed shop would be fully restored; secondary boycotts and jurisdictional strikes would be forbidden only when "unjustifiable," which leaves it questionable whether they would ever be under the ban.

Undermining State Laws

The proposed legislation would, moreover, go as far as such legislation could under our Constitution (as interpreted by a Roosevelt-appointed Supreme Court) to render null and void numerous State laws designed to hold rampant unionization in control. The President himself would apparently be left with some part of the powers he has been using at times with good effect during the past year or two, but, so far as the layman can see, with not very much of it—or at all events without very much ability to enforce his rulings in the courts or, for that matter, anywhere else.

All in all, it appears self-evident to us that should this program be taken to the statute books without major alteration, the country will be left dependent upon voluntary restraints which the unions decide it is wise for them to impose upon themselves. Such restraints have not in the past been of much account. It could be that experience gathered in the first postwar year or two have taught the unions and their leaders a good deal; it could be that they have learned little or nothing.

Social Security "Protection"

Turn now to the proposed social security program. Under it the Federal Government would undertake to assume responsibility for the old age needs of virtually the entire population. Indeed, if any escape its all-inclusive embrace it would apparently be because the framers of the proposals are unable to provide a system of administration which would "catch" certain small groups or elements in the population. It would, moreover, leave the individual no choice in the matter. He must come in whether he wishes or not, and he must make his "contribution" whether he thinks what he is getting for his money is worth the cost or not.

If it be said that there is nothing to prevent any individual providing for himself in his own way in addition to what is required of him under this scheme which now issues from the Administration, the obvious reply is that in very real truth the scheme itself interferes with the effectivness of any plans or programs which the individual may have developed for his own protection. It not only imposes a tax upon such an individual, but also (in the case of employees) upon the employer, the first inevitably detracting from what the individual has to provide for his own future and the second giving rise to waste of resources. Attacks are now being made from many quarters upon the size of the benefits under the existing system on the ground that inflation has reduced their actual value to very small proportions—which it has in fact done. Wasteful government expenditures, financed from social security contributions, tend to perpetuate this process.

The Reserve Myth

Only those who do not understand the intricacies of the system are likely to be misled by the notion often advanced that all this is being paid for, or would be paid for, as we go. Not only does no one really know the "present value" of the risks or obligations being undertaken—and could not know for the reason, if for no other, that politics have now dictated—and doubtless will from time to time in the future dictate—substantial increases in such obligations without in any way affecting the "reserves" held against them. But the basic fallacy in this "reserve" idea is that no real reserves have been accumulated or will be accumulated or in actual practice could well be accumulated against the obligations assumed, or to be assumed.

This elementary fact is apparently one which a great many find it difficult to grasp or to believe. Many suppose, and are encouraged by apologists to suppose, that to deny the existence of such real reserves is to accuse someone of falsification of books or of "bad faith." We are quite sure there has been no falsification of books, and doubt whether Congress or many others concerned in all this have been acting knowingly in bad faith. They have merely been permitting themselves to be misled by bookkeeping, and by certain false analogies between the "reserves" held by ordinary insurance companies and those held in the trust accounts in Washington. Of course, if a life insurance company were to "invest" its reserves in its own IOU's and employ the funds so obtained for its own purposes—well, one need not finish the sentence. Yet this is precisely what the Federal Government does with the "reserve" funds of the old age and survivors insurance program.

The Real Source of Payment

There is nothing criminal in its so doing, of course. Indeed it is difficult to know what else the Federal Government could do with these moneys—if it must carry them as "reserves"—at least without presently finding itself the owner of a very large part of the assets of the country. But the cold fact remains that payments of these "benefits" will depend upon the taxing power and the credit of the Government of the United States, and upon nothing else.

Some day, of course, sad experience will reveal the cold facts to eyes which are reluctant to see—and the fiddler will then present his bill.

Private Enterprise Has Not Solved Housing Problem

(Continued from page 15)

in productive enterprise. But the good work done by FHA and the Federal Home Loan Banks has not solved the slum problem, or the problem of the lowest income families. When we have solved the emergency problem, I see no reason to think that we will have any better situation that was normal before the war, and that normal situation was wholly unsatisfactory. It was a problem of high cost and low income. Incomes today are permanently higher than they were, but the cost of homes is also permanently higher. The relative position of cost and income probably will not be greatly different, and so we face the same problem as in 1940.

In 1940, according to the census, there were 29,000,000 urban and rural non-farm residential units. Of these, nearly 4,000,000 are listed as needing major repairs and are, therefore, in bad physical condition. All those in good repair, over 3,000,000, have no running water of any kind. 2,400,000 more have no private toilets or baths. Perhaps a majority of the homes without water are in rural areas where they are entirely satisfactory, but many of them are in cities where the failure to have running water certainly indicates a very low standard of sanitary living conditions. Many of the homes which do not meet a minimum standard of decency are in city slums where the quality of the residence is accentuated by the bad surroundings. It is possible that improvements have been made during the war which reduced the defects in plumbing and other conditions, but we have no direct evidence of this and our Committee concluded that about 6,000,000 homes in 1940 were below a proper minimum standard. Many can be improved. For others there is no solution except their destruction and replacement.

Housing for Low Income Groups Deteriorating

The difficulty with the housing problem as compared to food, clothing, medicine and the like is that shelter is absolutely essential for every family, and yet the cost is out of line with the income of most of the population. Only about half the families in the United States can afford to buy a new house, even of the simplest type. The other half can only buy or live in secondhand houses. Of course, many of these houses are just as good as the new ones, but on the other hand the reduction in rent is not much unless the house or the surroundings have deteriorated. But as these houses are handed down to families with still less income, they get older and older and finally reach families which can only pay a minimum rent. In 1940, the 6,000,000 sub-standard homes were rented by 6,000 000 low income families at rents averaging less than $15 a month. The rent paid is not sufficient to keep the houses in good condition, and they deteriorate further.

It is quite true that some kind of shelter is provided by our present system at rents which can be paid, but the lowest income group has necessarily gravitated to the sub-standard housing, for the most part in city slums. No one is saying that the private builders are to blame for the present situation, but it seems to be the inevitable result of present conditions. While I am a great believer in the system of free enterprise, this happens to be a field where it has failed to find a solution.

Even if a city tears down the slum dwellings and a private industry builds a similar number of new houses, other slums will appear because of the low rents which can be obtained from the lowest income groups. In other words, the so-called hand-me-down theory works, but it works to provide highly undesirable housing for those who get it on the last hand-down. Of course, many of the houses renting for low rents are satisfactory. Some owners and tenants will keep any kind of a house in good condition. Other houses are saved by their location, even though the condition is poor. But under private industry left to itself, the slum condition has continued without improvement. If we could reduce the cost of housing so that perhaps 75% of all the families could afford a new home, we could eliminate slums much more quickly at the bottom. All of the second- and third-hand houses would be newer and probably in better condition, even if there remain the same proportion of lower-income families. So, perhaps, the basic remedy is a reduction in cost.

Through the FHA we have, in effect, reduced the cost of housing by reducing the rate of interest and lengthening the term. But neither contractors nor material men have made any similar reductions. The current bills all provide for research to stimulate new methods and new materials. That, of course, cannot be neglected, but we cannot be certain of its success. We do know that in 1926 we reached the height of home building in the construction of 900,000 houses, but that long before the depression this number had declined rapidly because the market for new homes was exhausted. It is almost certain that the same condition is likely to recur in a very short time. Houses again are pricing themselves out of the market.

Direct Government Action Essential

Until the cost is reduced, therefore, I see no way in which to cure the situation, except by some direct government action at the lowest income levels to replace slum dwellings with public housing, and thereby supplementing efforts to get more new houses built by private builders for those with adequate income.

Many have denounced public housing as a communistic or socialistic enterprise. Of course, to a certain extent it is true that it is socialistic in nature. But this question of socialism is a relative matter. We have long socialized our public education in the primary and secondary schools. We have socialized medical care to the extent that we provide medical care to the poor through public hospitals. But this does not mean that we have socialized medical care as a whole, or the medical profession. The public housing program is in no sense a socialization of the building industry, or of the housing industry. It is intended to reach only those whose income is so low as to prevent their renting the minimum of decent housing. We have long recognized government's obligation to give food and clothing relief to families unable to pay for them. We have long recognized government's obligation to give free medical care and hospital service to those unable to pay for it. We have long recognized the obligation to educate children, no matter how poor their parents. Shelter is one of the necessities of life, perhaps the greatest after food. It is quite true that local government has not often undertaken the job of providing minimum shelter as it has that of clothing, food and medicine, but the reasons are just as strong in favor of providing this necessity of life as the others.

Of course, in Congress we are faced with the further question whether the Federal Government has any function in this program. Housing like food, relief, medicine, is primarily the obligation of the States and local governments. Even if these programs are the proper function of government, it is said that under our Constitution they do not fall primarily within duties or powers of the Federal Government. It is a little late, however, for us to argue the place of the Federal Government in the picture. Under President Hoover, we set up the Federal Home Loan Bank System to assist Building and Loan Associations to finance housing more adequately. Under President Roosevelt, we established the Federal Housing Administration which, by mortgage insurance, has revolutionized the financing of

homes. The public housing program has been in force for more than eight years. As part of the Federal Government, we in Congress cannot avoid the responsibility of considering the whole problem.

Furthermore, I believe that the Federal Government does have a responsibility for preventing the suffering and hardship resulting from extreme poverty at any point in the United States. I believe the Federal Government has an interest in seeing that every child has substantially equal opportunity, regardless how poor his parents may be. Under American principles of freedom, we have built up the highest standard of living in the history of the world—on the average. But its success is based on adequate reward for those who are more intelligent, better workmen, more diligent or superior in other ways. Some must necessarily fall behind, either from misfortune or lack of ability or their own fault. The philosophy of socialism is to raise all to the average, which necessarily will bring all others down to the same dead level and take all life and progress out of the system. There might be more equality under a socialism, but I am certain there would be much lower standards of living for the great majority of workmen. The extreme philosophy the other way is to "let the devil take the hindmost" and let those who are unable to keep up suffer poverty and hardship on the theory that in the end general progress will be faster. Without arguing the economics of this theory, it is enough to say that it offends every humane sense, and that Americans are humane people.

How Federal Government Comes Into Picture

I believe that the American people feel that with the high production of which we are now capable, there is enough left over to prevent extreme hardship and maintain a minimum standard floor under subsistence, education, medical care and housing, to give to all a minimum standard of decent living and to all children a fair opportunity to get a start in life. But if we accept this theory, it is obvious that a large number of the States do not enjoy the high production or the high resulting income which will enable them to maintain such a standard. The Federal Government comes into the picture, because there is a great difference of financial ability among our various States. The average income in Connecticut, is more than twice the average income in Mississippi. We saw how in extreme cases like the unemployment crisis of 1934, the cost of an adequate and necessary program was far beyond the resources even of the wealthier States. It is beyond the resources of many other States today. States do not have the taxing power which the Federal Government has, because they cannot reach the most lucrative sources of income or maintain tax rates materially higher than the surrounding States without driving wealth away from the State.

If we adopt this theory, however, and wish to avoid a complete centralization of authority in Washington, there must be certain definite limitations, and we must adhere to the basic doctrine that the role of the Federal Government is only one of financial assistance.

First, the Federal Government must not take over the administration of these various welfare services, but must leave it with the States and localities so that the communities themselves may work out their own solutions. Second, the minimum floor which we provide must not be so high as to destroy the incentive to improve one's conditions through one's own efforts. The man who is aided must not be better off than the man who earns his own way. Third, the cost must not be so great as to bear too heavily on the other four-fifths who have to work harder to pay the bill.

It is said that once we establish a minimum standard, and once the Federal Government gives aid, the standard will be steadily raised and the cost to the Federal Government will rapidly increase. Of course that is a danger, but it is a danger I would rather face than refuse all assistance and leave the entire matter to the States. I feel quite certain that the suffering and hardship in many sections would lead to a general distrust in our whole economic system, certainly a demand that the Federal Government take over completely the administration of these activities.

Of course the program does deprive the lowest income group of incentive and freedom, but most of the incentive and leadership in the nation will be found in any event in the other four-fifths. Allowing for all this, however, I believe the Federal Government must assist the States to meet these social problems.

The public housing program is intended to deal only with those who cannot reasonably be expected to pay the rentals in decent private housing. It is not intended to deal with transients or helpless individuals, but with those families receiving some steady income at the lowest range of the income scale. The most helpless group will have to be taken care of in public institutions or through rent certificates. One of the objections to public housing is that it competes with private renters by admitting families able to live in privately owned homes. This condition arose out of the war when it was impossible to move the families of war workers, no matter how much they earned. The present bill requires a constant survey to see that families remotely able to rent good private housing shall not remain in the public housing projects.

It is objected that the whole program is socialistic and contemplates a socialistic community. The cause of public housing has been injured by some of its vociferous supporters, because unquestionably there are among those supporters many who want all housing to be socialized, and want all workers housed at government expense. The radical character of some of the personnel of the Public Housing Authority has also justified criticism. But after all, this support does not to my mind give any argument against public housing if there are sound arguments for it.

Limit on Expenditure

Public housing is criticized as being too expensive. It does seem to me that the limits in the Ellender bill which would permit the expenditure of about $12,500 per housing unit are very high indeed. Four room homes can be built for $7,500, perhaps $6,500. Some public housing projects perhaps have to be fire proof and involve greater expense. But if this program is to avoid public criticism, it must be carried out in most places at far below the Ellender bill limits. We ought not to give a man who is admittedly unable to earn earn anything like an average wage better housing than the man who works hard and builds his own home.

It is contended that the financial participation required from the State and local authorities is too small a percentage. Again, I think the criticism is justified, but we must remember that housing is a new government activity, and that State and local authorities have found little place in their budget for housing subsidy, and that their tax revenues are very difficult to increase. If we are to maintain the local interest and effective control essential to a Federal-aid system, the community ought to provide some part of the necessary funds.

The bill provides that no housing can be done, except upon the express request of the local governing body. If that body believes that its city requires public housing, it ought to be prepared to put up some contribution, either in the way of tax exemption or direct cash subsidy. One reason that the public housing program was so unpopular in so many sections of the country was that it was imposed by the Federal Government officials without any real interest or decision from the people of the community. Its success has been greatest in a city like New York where public housing was undertaken before the Federal Government came into the picture.

Our original report recommended 125,000 units a year for four years, and that was the provision of the Taft-Ellender-Wagner bill. The Administration this year substantially raised the ante to a total of 1,050,000 units at the rate of 250,000 a year. To my mind, this changed the whole character of the program. Two hundred fifty thousand units would be 25% of the 1948 construction. Some materials and labor are still short, and the materials and labor to construct this amount of public housing would cut down the number of private housing units which could be built. I have always said that the program should not exceed 10% of available housing. As a matter of fact, I doubt if more than 125,000 units could be efficiently built for several years to come. This is no time to force up the price of materials by excessive building. In short, I believe that many of the objections of the private builders are completely unsound as to a reasonable program clearly within the necessities of the situation; but they would be sound against a program which seems to look towards the socialization of all housing.

It is said that if we once admit the principle of public housing, we will have to build a total of from three to six million homes. This, I certainly do not admit. As I have said, the reduction of costs might make all public housing unnecessary. Other methods of dealing with the housing situation may be developed. Many low income families have found homes at low cost or low rental which are satisfactory for their children, particularly in the environs of cities since the automobile has spread the population over a wide area.

My belief is that if we take the edge off the problem at the bottom, destroy many of the existing slums and set an example in many neighborhoods, it will not be necessary to extend the public housing program beyond a total of perhaps a million homes in the course of the next 10 years. I have seen public housing projects in Cleveland, and elsewhere, which have changed the whole character of the neighborhood. Private owners have come in and improved all the homes in the neighboring section, new stores have been built and a standard established extending far beyond the number of homes covered by public housing.

Proposed Alternative Remedies

The opposition to public housing has proposed from time to time a number of alternative remedies. A great many suggestions try to reduce the interest rate and cost of financing, usually through an indirect subsidy from the government. When these plans are analyzed, they never get the rent down to the point where they will take care of really low income families. Many other plans recognize that a direct subsidy of some kind is necessary. Some have proposed that the low income problem be dealt with by the issuance of rent certificates to be used by the holders to pay all or part of their rents. As an emergency method of dealing with a few relief cases, this is satisfactory, but rent certificates will not eliminate slums. No man will invest his money in new buildings on the chance that rent certificates will continue to be issued for the next 20 years. Rent certificates will not stimulate private building, and the most we could hope is that they might lead private owners of slums to spend somewhat more on maintenance.

Our committees have considered many other forms of subsidy. There might be a direct subsidy for every home built to reduce its cost, but even a $500 subsidy would have cost at least $500 million in 1948, and I doubt if it would have accomplished any real purpose. It is hard to see how you could prevent the builder or the owner from adding this amount to his profits by reselling the house unless we have a complete system of fixing prices on homes.

We considered various methods of subsidy to private apartment owners and builders and, of course, something of this sort has been done in the way of tax exemption in several States to provide for middle income families. None of these subsidies, however, has been big enough to secure really low rents such as are furnished by public housing. They would have to be larger than direct Federal subsidies, because the money borrowed is necessarily taxable and it is not always possible to get tax exemption for the property itself. In general, few people are interested in building apartment projects under a subsidy agreement, because they have to submit to complete regulation by the government of the rentals which they charge, the accommodations which they provide and the character of tenants whom they accept. Practically only institutions of a charitable nature could be led to build under such an arrangement.

I have found no alternative to public housing as a method of providing low income rentals to these at the bottom of the income scale. Public housing is still experimental and the experiment has been very much confused by the intervening of the second World War and the large amount of war housing constructed directly or indirectly by the government. Many of the complaints against the public housing system relate to this war housing. Few cities have been able to give the public housing program a proper trial, and many cities require the urban redevelopment assistance provided in the Ellender bill in order to handle the slum question properly.

Those of you who are at this meeting are largely interested in private housing. There is no reason why the public housing program should compete with or interfere in any way with the private housing industry, any more than general hospitals interfere with the practice of the private physician. I know of no one who does not feel that the major problem of providing shelter can only be solved by private industry. I believe that those who are opposed to public housing have done their own industry a disservice by their indiscriminate and unreasoning opposition. They should promote the plan and spend their energy and their funds in confining it to its proper scope in making it more of a local enterprise clearly devoted to the lower income problem. They have invited more radical housing measures and have assisted the critics of free enterprise in the United States. The American people, in my opinion, are determined to adopt a housing plan which will substantially provide for every child who is born in the United States decent home surroundings, so that he may actually enjoy the freedom and equality of opportunity to secure which our forefathers came to America.

The Lull in Inflation

(Continued from page 5)

very serious inflationary conditions if its turnover became too rapid. It follows of course that with our very large money supply a rapid turnover would very quickly bring inflationary conditions wholly out of control.

During the past few months little if any attention has been given to the monetary phase of inflation. The Treasury still continues to buy gold by a process which increases bank deposits by the amount paid for the gold and provides bank reserves which may increase bank deposits by another three or four times that price. The Federal Reserve continues to buy government bonds at a pegged price, thereby encouraging banks and insurance companies and other large holders of governments to turn them in, or as Mr. Eccles says to "monetize" them, thereby increasing bank deposits by four or five times the sale price of the bonds.

These obvious sources of continued increases in our money supply seem to be ignored by officials, bankers, and economists who currently discuss the inflation problem. They confined themselves to the symptoms and effects of inflation, manifested by current prices, wages, and the lull in buying and business expansion.

Nobody in authority seems to want to decrease the supply of money. The monetary authorities and most commentators appear content to urge the people to avoid inflationary use of the money available to them. The result has been that the people have become cautious, price conscious, and hopeful of lower prices in the near future.

This, we believe, accounts for the present lull. Those who interpret the situation as proof that inflation has run its course or that the peak of the inflation is passed may be expressing only pious wishes and also may be taking grave responsibility for the action of those who are influenced by their interpretation.

Meanwhile, emphasis on the continued inflation of the money supply is discouraged by the threat that it is deflation that we have to fear, not inflation. Nevertheless, the huge money supply remains with us; it is not being reduced, and there is no probability that it will be reduced in the foreseeable future. It is much more likely to rise as Federal expenditures increase and the defense and foreign aid programs expand.

We again emphasize our belief that the inflationary trend in this country has developed to the point where the monetary problem must be tackled, because we cannot rely on the continued restrain of inflationary spending or government controls on prices and allotments.

The monetary sources of inflation — the purchase of gold and support of government bonds—so obviously are in need of modification that it is difficult to believe they could be persistently ignored in current government proposals, in current annual bank reports, and in the more or less academic discussions of economists.

We admit that the campaign to urge our people to avoid inflationary use of our huge money supply is showing results in current caution. But we fear that this will be followed by another wave of spending, and that the brake now applied will be useless unless sound monetary policies are adopted.

What Double Taxation Does

(Continued from page 14)

quired $26 billion in 1948, $2 billion less than in 1947, but that part of new investment which went into plant and equipment increased. Of the total, 65% was internally financed."

And on housing Mr. Truman says:

"The housing supply was increased by well over a million residential units during 1948. But since last May the number of new housing starts has been falling off rapidly. This does not mean that the housing shortage has been overcome. Rather it means, as I have pointed out in previous reports, that the construction industry has been pricing itself out of the market for all but expensive homes. A continued decline in home building would constitute a threat, not only to the improvement of living standards for millions of low-income families who are still inadequately housed, but also to the maintenance of maximum employment over the years."

But the Council has this to say:

"The volume of residential construction accelerated rapidly after the war. (See appendix table C-14) From a low of about 142,000 in 1944, the number of permanent nonfarm units started in new structures rose to an estimated 925,000 in 1948. Adding to this the units provided by conversions and remodeling, it appears that well over a million completed residential units were added to the housing supply in 1948. The provision of adequate plumbing, heating, and other facilities and of major repairs further increased the availability of dwellings meeting a reasonable standard of comfort."

The President would siphon off dollars to promote the Welfare-State, as evidenced by his pressure group promises, and at the cost of corporate enterprise and future economic balance and production of needed goods. Business wants and must have profits to replace old, or build more modern plants.

From time to time powerful minority blocks have placed their own interests above that of the general welfare. You recall the contest which precipitated the Civil War; the trust builders of the late nineties; the financial manipulators of the 1920s with their mergers and consolidations. These were private forces.

Now comes the labor monopoly.

But who or what set of government machinery could more completely buttress the monopoly of labor than that supplied by the late Mr. Roosevelt and the present Mr. Truman? Is there anyone here who would now contend the objectives of the labor monopoly leaders squares with the good of the general welfare? They demand higher wages simultaneously with lower prices, and has not the President promised them just that?

And furthermore, if labor monopolies can eliminate all restraints as they now demand, then Free Government will have vanished. If the President has had in mind returning this country to the one-sided situation which existed under the Wagner Act, God save the United States! If organized labor is now to pack the Senate and House Labor Committees, write the labor laws, act as ambassadors in foreign countries and otherwise dominate our economy, that will seal the doom of our enterprise system and you will need worry little about the tax burden on corporations.

Can you think of one single thing possible of being done by our people at this very moment in this material world of ours that could be more important, more basic, of a more bread and butter nature than that of our proceeding to invest heavily of our funds to bring about the rapid opening up and development of, for instance, Alaska, the African Continent — the store house of riches in Canada and Australia? Here we are pouring billions and more billions of dollars worth of substance into dying Socialist England and Western Europe; areas crowded to decay. There are millions of people to be moved to other lands where they can produce and help satisfy their demands. The U. S. A. cannot alone carry the load for the whole world. New areas must be opened. But the President's program would prevent this new development.

Here we have England and the United States so very closely affiliated. Under the combined flags of the two countries we have these vast undeveloped areas. If the respective governments, now working together in some respects, would only follow sensible taxing policies, thrifty citizens would provide the necessary capital for the development of the natural resources. This would make way for great employment, provide millions of people with an opportunity of expression and a chance to acquire goods to meet their wants. It would be the answer to the spread of communism.

But our President constantly presses for the Welfare-State. Mr. Truman, the great promisor, warns us of greater and greater budgets and calls for more and more tax dollars, thus reducing the internal source of strength of our corporate enterprise system.

Not only does the President propose further direct taxes against corporate income, but he now has Senate Finance Committee Members seriously discussing the disastrous effects that will follow a 20% payroll tax to cover more old age and survivors insurance and more unemployment and disability insurance.

The matter of applying the rates on incomes up to $4,800, would, on a 20% basis, tax employees $40 dollars per month—in addition to all the other taxes he must pay.

Such a payroll tax would add greatly to manufacturing costs; further advance price levels; while a buyer's market would operate against profits, reducing taxable income and government revenue.

He would take away from the corporations their retained earnings available for expansion of plant by management. Or he would tax the dividend recipient for that margin the stockholder would invest back into the business.

Simply stated, he proposes a program designed to drive men of vision, courage, judgment and guts from the active market place.

In all of this program I am forced to the conclusion the President is wrapped in confused purpose and ill considered action.

What Double Taxation Does

The excuse given for assessing double taxtion on corporations simply because Management does not distribute all earnings, does not hold water. Had corporations not withheld earnings, just where would the expansion of plant have come from during the past 24 months?

Single proprietorships and partnerships are not subject to this type of double tax. So, from this standpoint there is inequity. With the reappearance of Excess Profits Tax added to the corporate normal tax, along with the taxing of the dividends, the trend away from corporate enterprise will be accelerated. Furthermore, corporations which continue to operate as such, will use every device possible to obtain the necessary funds through borrowing so that the interest paid on loans may be deducted in arriving at taxable income. At the same time the individual, who might be a stockholder, will further refrain from purchasing common stock equities. All of this will certainly and very definitely further promote an unsound corporate financial structure in this country. "Double Taxation" will be the direct cause.

It has been pointed out that our corporations do not constitute an independent source of revenue. People must be constantly told that corporations derive their strength from individuals — and as strange as it may seem—from millions of individuals, many of very small means.

Can you tell me why it is that so many of our people really glory in the thought that "the rich corporations are to be soaked" when they hear that corporations taxes are to be increased? Just what has happened in this country? How is it that our people — (millions of whom are employed by corporations and which are financed by average people as measured by wealth) do not have any practical "thinking concept" of how a corporation is constituted? From what source it derives its original capital? That if a corporation is taxed 80% the poorest stockholder, is likewise taxed 80%? And that if the corporation fails — it is the stockholder who loses—simply because the purely fictitious person known as the corporation has behind it the stockholder? How can it be that Management in its advertising and educational material placed before the reading public —why is it that trade associations and industrial institutes, have failed to tell and retell the story to our people? Why is it that too many of our leaders have been lulled into a sleep to the effect it is not necessary to tell our people what makes our economy tick.

The opposition has never failed to use every opportunity to poison the minds of all the people —even stockholders—against the whole corporate enterprise system.

Why would it not be entirely in order for a corporation to allocate a portion of its advertising budget and point out that the double taxation of corporations is infinitely inequitable; and that when the Congress and the Treasury Department look upon a corporation for tax purposes as an entity quite separate and distinct from its stockholders that the taxing authorities are entirely outside the realm of common sense and equity. The taking of 40% or 75% or 90% of a corporation's earnings for taxes, coupled with a further tax on the dividend paid by the corporation to the stockholder, is indefensible, unreasonable, inequitable, and under our system it cannot be adequately defended once the people rise up in opposition to the unsound scheme of such a method of taxing.

This double taxing program serves to cause many people with funds to seek a type of investment where the risk is little, if any, while others, perhaps not so sagacious, will place their funds in adventures carrying great risks or where the operation borders on the "investment" type but still carries considerable risk by reason of the natural hazards of the business. The net result of this is that the person who does invest in corporate enterprise to expand buildings, machinery and provide machine tools to enable workers to be employed and production to flow, must carry the heavy tax burden.

Suppose that during the past 50 years corporations had not been permitted to "plow back" their earnings?

Suppose the present tax burdens on corporations and stockholders (to say nothing about those which prevailed during the war, and those which President Truman is now advocating be applied) had prevailed during the peacetime of the past 50 years?

Suppose corporations had not been permitted to grow from little ones into big ones? Where would the mass production of this country now be? What social and economic progress would the American people have made? Just what would now be our material strength had this country during the past 50 years supported the type of program with all its promises, with all of its "free tickets" for everything from the cradle to the grave that the present Administration boldly tells the people they must have and will have, and all as it calls for from $40 to $50 billion in taxes per annum with which to finance the deal?

The base of the last "dance of the billions" is the $252 billion Federal debt. The people are told nothing about how this debt is to be juggled. Certainly there is nothing in the President's three messages of the last few weeks that indicated he has any serious thought about substantially reducing this debt. He either does not know what is going on, or he has not read his own messages, or he thinks the American people are dupes.

Top level statesmen today must continually rig the financial markets incident to the management of the debt. Yet the President sets the pegs for more and more debt and taxes.

This $42 billion budget is not all the President will ask for. There are several other "projects" which he will announce at a later date, the cost of which will call for billions of dollars additional. Furthermore, Mr. Truman knows—if he knows anything—that when taxes are assessed and enter into the cost of goods sold in a seller's market, the consumers, all the people, have to pay those taxes. Why does he not tell the people that? There are no "free riders" and if you will look closely you will find the real story at the bottom of the ticket printed in fine print.

But in all this, the substance of what the President says is "we will tax job creation." "We will bring further discouragement to those who would invest in American enterprise, who would maintain the plants, the machinery, the machine tools, so that willing workers with skilled hands may produce the goods mankind wants."

Here we have the President, from his words worrying about maintaining jobs for 60 million workers. But in the same breath in which he expresses concern about their welfare, he proposes a plan of taxation that strikes at the very heart of our whole enterprise system upon which not only this country, but presently, the whole world depends for its lifeline. **This tax proposal of the President stunts the growth of our enterprise system, it makes men who think, want to liquidate, allocate what they have over their remaining life span and refuse to take further risks. This crazy program of the President has served notice on the American people that for the long pull he proposes to confiscate their wealth.** If you care to take his budget message, analyze it carefully, square it with our past history, lay it alongside the report of his Economic Council, I feel you will definitely come to the conclusion that from here on the employment of your wealth in enterprise is a fatuous performance.

Of course there are those who put great faith in the efficacy of Federal spending if the private business volume drops. But this will add to the Federal debt, the tax burden and increase the overall difficulties. I should think we would feel there has been enough of such.

And too, administered prices and enormous credit making strength of the banks are looked upon as factors of strength. But these can add to the inflation potential.

Under the President's program you are, from here on, to exercise thrift, invest take your chance, bear your losses if they materialize, and if there is a gain, you are to transfer that through the operation of the tax box, to the Welfare-State to expand Social Security. And the more of this last mentioned article, the less demand for goods and the less goods there will be consumed.

From what source has the great demand for goods come these past few years? Have we not been building armament? The President well knows that the wages of capital from here on, under his plan, are to be reduced.

Through what means did the United States jump ahead of England, France, and Germany in supplying the goods to be consumed by the people of the world? We made rapid progress. The present foundation of our productive capacity was established. Our flow sheet of consumer goods came into operation—all before—before what? Before our tax gathers of the present variety came into control.

Through his three messages, the President served notice on capital that if his policies are to prevail, expanding capital cannot survive in the United States. Now, at what point will capital go on strike? The President has some fear of this strike. Here is the proof.

In his State of the Union Message under the heading "prosperity threatened" he recommends the enactment of legislation covering eight propositions, the last of which reads:

". . . to authorize an immediate study of the adequacy of production facilities for materials in critically short supply such as steel; and, if found necessary, to authorize government loans for the expansion of production facilities to relieve such shortages, and furthermore to authorize the construction of such facilities directly if action by private industry fails to meet our needs."

And, believe it or not, the President specifically advocates this step being taken by our government in the same hour he calls upon you taxpayers and bond-buyers to dig up another $6 billion this coming fiscal year to help the 16 Western European nations to rid themselves of government participations in those fields in which private enterprise functions most efficiently and effectively.

In conclusion — Let me say to you representatives here that my earnest approach to this whole problem is evidenced by the fact that I am now ready to introduce in the House a Bill carrying the provisions which you think would be suitable and all for the specific purpose of dealing with this problem.

Industrial America arrived where it is today through years of tough work, sweat and tears. Brains and guts have not been absent in all of this which has happened the last 170 years.

We know, however, that if we are to hold what we now have, to say nothing about gaining new ground, that we shall have to fight those who would destroy, first, production, and secondly, sound finance.

Here this evening, we meet as the representatives of "Investors in American Enterprise."

This is the hour for you to strike and with all of the force of your combined strength. To further delay or longer fail to make your case before the bar of judgment of the American people is no less than a violation of your trust as industrial managers.

Pusillanimous presentations will no longer suffice. We have arrived at the crossroads.

Investors of the American Enterprise System let the 81st Congress hear your voice to the end, that this Republic may be preserved.

Outlook for Home Building

(Continued from page 9)

ber of residential units in excess of the quantity which could be used in existing conditions. This apparently was one reason why in the decade of the '30's only two new dwellings of conventional type were constructed for every three new families. Still another reason why residential construction was reduced to such low levels during the period of the '30's was the low level of production and income. The statistics which I have used were intended to be measurements of the construction of new dwellings of conventional type. Families, however, are housed in other kinds of dwellings, and this factor must be recognized in appraising the probable magnitude of the future demand for residential building. Dwellings are also created by converting existing structures for the purpose of housing more families, or by converting non-residential construction so that it may be used for residential purposes, or by renovating dilapidated houses, or even by the construction of trailers.

Dwelling Units Added Since 1940

At our disposal in the way of evidence concerning the supply, condition and use of housing are the complete Census of Housing taken during April, 1940, the sample Census of Housing taken in April 1947, and the sample Census of Housing taken in April, 1948. In addition to this information, we also have reports on the number of new dwelling units on which construction was started, estimated and published by the U. S. Bureau of Labor Statistics. These will be the major sources of information which I will use in appraising the current supply of dwelling units. In addition, I wish to acknowledge my indebtedness to Mr. Miles Colean, housing consultant, who has prepared a study of the housing supply from which I have derived data. Using the sources which I have mentioned, we may estimate that approximately 7,100,000 dwelling units were added to the housing supply between April, 1940, and the end of 1948. In arriving at this total no allowance has been made for the construction of temporary structures built by the government during the war years, even though many of these are still being used. An allowance of 305,000 units has been made for demolition and fire loss. This would indicate that about six dwelling units have been constructed for each additional five families during the period indicated, which lasted for almost nine years. In 1948 alone approximately 1¼ million new dwelling units of all kinds were produced. In this year the production of dwelling units was about 50% larger than family formation. Not only have an additional 7,100,000 dwelling units been produced since 1940, but the census data indicates that more residential space is being used per capita and that the national inventory of dwelling units is in better condition than at any other time for which we have records. Furthermore, this conclusion can be substantiated by the common sense approach of looking at houses when one sees them. I have not traveled everywhere in the country during the past year or so, but it has been a matter of common comment that people have painted, repaired and improved an exceedingly large number of owner-occupied dwellings during recent years. It is estimated that the number of non-farm dwelling units appraised as needing major repairs was reduced by more than ⅓ from 1940 to 1947, while the number of non-farm units with no installed plumbing was reduced by ⅕. In view of the available evidence, it may be concluded that the amount of deferred residential construction should not be considered as large unless it is thought that a large replacement market can be developed, which is quite a different thing from what we ordinarily consider to be deferred demand.

Changing Ideas of Residential Accommodations

While we have been changing our political and economic philosophy, we have also been changing our ideas concerning what kind of residential accommodations are to be desired. One of the reasons why we have obtained almost 2 million dwelling units in less than 9 years by converting existing non-farm construction is that the cost of building new structures has been considered to be so high. Nor is this an idea which probably will be changed in the near future. For various pertinent reasons, it is logical to suppose that individuals considering the purchase of residential construction will continue to look with favor upon conversion as a means of acquiring dwelling space.

Another important change in our culture is seldom mentioned when discussing the outlook for residential construction. This is the increasing acceptance of a trailer as a place to live. In the year 1948 alone, the trailer producer industry manufactured approximately 100,000 new units. Of these some four-fifths apparently were used as residences. Not only are trailers used as dwellings, but a large number of people use them from preference, even though some of the buyers during the past several years have thought of their trailers as temporary quarters. In the future if the trailer industry produces only 57,000 trailers a year to be used as residences, this quantity would house approximately 10% of the annual increment in new families during the coming decade. This is a change in the living habits of our population which also must be recognized when comparing the production of new dwelling units with new family formation.

Another means of appraising the current use of dwelling units is to measure the number of families living with other family groups. In April, 1940, approximately 6.5% of all married couples were living "doubled up." By April, 1947, the percentage had been increased to about 8.1%. But by the end of 1948, this ratio had been reduced to approximately 6%. These calculations indicate that a smaller proportion of married couples are now living "doubled up" than was the case in April, 1940. Consequently, it is to be doubted that many new dwelling units can be produced for occupancy by families who are now "doubled up."

Pertinent Conclusions

We may use my preceding comments to develop four pertinent conclusions.

First: The production of about 600,000 dwelling units a year will be required to simply shelter additions to the population irrespective of quality and location during the next five years. This figure has been obtained by estimating that about 2,800,000 new families will be formed on a net basis in the five years beginning in 1949 and ending in 1953 and that approximately 200,000 dwelling units will be lost through fire, demolition and disaster during this period.

Second: The production of dwelling units in excess of 600,000 units per annum presumably will depend upon the rate at which new structures will be built to replace those now in existence.

Third: The population of the country now possesses enough dwelling units to be in a position to reduce expenditure for new residential building. Considering the present supply and use of dwelling units, it is evident that people may defer some part of current aggregate expenditure for new residential construction if they wish to do so.

Fourth: It is evident that it would be reasonable to expect a lower level of privately-financed construction during 1949 and subsequent years if only the prospective level of family formation and the current supply and use of dwelling units are considered.

These conclusions are quite different from others which seem to be widely held. In part this difference is due to a different evaluation of existing data and in part the disagreement is a result of the peculiar situation which was developed in respect to the use of residential structures during and since the war. To understand how we developed some of our more popular ideas regarding what is called the "housing problem," it is necessary to review recent history. In the first place, about 11 million young men went into the military services during the war years and, thus, temporarily were not a part of the civilian community. While these millions of young men were withdrawn from the economy, the incomes of civilians were substantially increased. You are quite familiar with the ways in which incomes were increased by wartime finance, so I will not enlarge upon this factor. It is important to note, however, that civilians were provided with more money than they wished to spend for the assortment of commodities available. They did, however, bid up the prices of commodities with their increased incomes, with the result that an attempt was made to control prices. One of the most popular price controls was that imposed upon rents. As a natural result, rented residential space was made one of the best bargains available before the end of the war. Bargain rented space was used lavishly, and the owners of buildings rented learned that they could not increase the price of the commodity which they provided, even though many persons providing other kinds of services were encouraged to increase their prices. Presumably this lesson in equity will not be immediately forgotten by numerous individuals who had invested their savings in residential property to be rented. But at the end of hostilities the young veterans were returned to the civilian economy within a matter of months. They found the people who had stayed home housed in rent controlled property and well satisfied with the bargains which they had obtained. It is a matter of record that in the latter part of 1945 the civilian population apparently was using more dwelling space per capita than before the war. On the other hand, the returning veterans found it extremely difficult to rent quarters. The members of Congress, having these matters brought to their attention, established legislation enabling veterans possessing little or no capital to borrow money with which to purchase homes. The passage of this legislation set in motion a new chain of events. The veterans could and did pay possibly $6,000 for a house for which the market price would have been about half of that sum before the war. Through this transaction the seller of the property acquired the equity capital with which to pay $15,000 for a prewar $7,500 house; and the seller of the second house obtained capital to use in paying $30,000 for a prewar $15,000 house. Meanwhile the owners of rented residential properties realized that they were being offered an opportunity to escape from their unprofitable situation by selling their properties at the currently inflated prices and the number of dwelling units offered for rent was reduced as they were sold to new owners. Because of these developments, persons who wished to rent residential space were obliged to become owners, and for the time being the demand for materials, labor, and management to produce new residential construction was stimulated to the point where the prices for these things were increased rapidly. The developments which I have outlined ordinarily are described in more emotional terms. My words, however, will do to describe the series of developments which the proverbial man from Mars might consider to be the way in which we contrived a crisis or problem in housing for ourselves. Our publications and air waves have been filled with comment on the subject of the housing problem. Our socialists and other people who do not believe in the private ownership of property used in production have this situation to plead for political investment and ownership. And, because of our actions and our statement of our problem, the outlook for construction activity has been affected.

We Are at Breaking Point in Govt. Spending!

(Continued from page 4)

tives. We all want peace in the world. We all want to see a progressively higher standard of life for all Americans at home. But to wreck the free, productive economy by imposing unbearable burdens upon it will accomplish neither.

Aid to the world—yes, but within the limits of our means. Federal spending for various programs of domestic reconstruction—yes, but again only so far as the economy can stand it. Americans would like to see better and more housing, better and more schools, better and more hospitals, but let us not forget that the only sure source of these good things is the freely, productive economy that has made the United States what it is; that production alone can provide the goods and services necessary.

No one can surely say how much spending and taxation the nation can safely endure over a long period. My own guess is that we cannot now stand any increase in taxation and that the government should be forced to live within its present income—and very soon indeed plan to reduce all along the line. The Franklin D. Roosevelt of 1933 understood these things very clearly and said so:

"Too often in recent history liberal governments have been wrecked on the rocks of loose, fiscal policy. We must avoid this danger.

"All the costs of local, State and national governments must be reduced without fear and without favor.

"Unless the people through unified action arise and take charge of their government, they will find that their government has taken charge of them. *Independence and liberty will be gone and the general public will find itself in a condition of servitude to aggressive, organized and selfish minorities.*

"For upon the financial stability of the United States Government depends the stability of trade and employment and of the entire banking, saving and insurance system of the country."

Believe it or not, President Roosevelt was speaking at a time when the Federal budget of $5 billion represented an insignificant percentage of the total national income. Today, Federal and local taxes are taking more than one-third of the total income of the people. We have certainly traveled far since 1933.

The Budget Message of Jan. 10, only the first instalment of 1949-50 demands, makes it abundantly clear that the United States now stands at the crossroads. If we do not soon commence to seriously limit national spending, it may be too late to avert disaster. One can expect little help from the new Congress — certainly not from the House. Rank and file members of Congress are largely spenders. This is not surprising. Some 104 members of the present House were elected by very narrow margins. They are naturally sensitive to the demands of pressure groups.

Heretofore the Appropriations Committee of the House has been relied upon to act as a wholesome and necessary brake upon spending proclivities. In earlier Congresses the Committee acted with surprisingly little regard for party politics. The members of the Committee stood largely shoulder to shoulder whether Democrat or Republican. In a great many cases the appropriation bills came out of a unanimous committee. As a result, this Committee has in the past saved untold billions of taxpayers' money and exposed enormous losses resulting from bureaucratic incompetence, such as the $8 billion for which the Maritime Commission has been unable to account.

Last week, however, the House Democratic majority ruthlessly undertook steps to wreck the Committee and render it quite incapable of fulfilling its traditional role. This operation was performed doubtless for the purpose of assuring passage of administration spending bills without interference or independent scrutiny. Unfortunately, it will also clear the way for spending bills that even the administration may not want.

The sub-committee set-up that had functioned well for years has been completely scrapped and replaced by an utterly unworkable system. For example, two sub-committees of five members will be loaded with some 60% of the total national budget. Four sub-committees of seven men each handled this great volume of work in the past. Obviously, there can be no serious examination of appropriation requests under these conditions. Nor is there intended to be! The reorganization, furthermore, will remove minority Republican members from the fields of government which they have become familiar with in past years. But lest energetic committee members manage somehow to overcome these apparently insuperable handicaps, the Democratic majority has discharged the highly competent staff of professional investigators and accountants who have acted as the eyes of the Committee in its scrutiny of department and agency affairs. Without them the Committee will be quite helpless. But they are to be replaced by others! And such others! The Committee is to borrow Federal employees from one department of government to investigate other departments. This furnishes the comic spectacle of bureaucrats investigating each other in pursuit of waste!

How much longer the United States can stand the pace of public spending without collapse is, of course anyone's guess. I should guess that we have reached the breaking point. If citizens do not now rise against increased taxation, if they do not demand that the government live within its present enormous income, then those same citizens will have only themselves to blame if their personal liberties are swept into oblivion with the economic freedom that alone made them possible.

Our Banks and a Free Gold Market

(Continued from page 7)

called "ordinary" expenditures of the government, together accounting for 24% of the total, exceed the peak outlay of the Federal Government in the '30's at a time when billions were being spent to prime the pump. Adding defense outlay and the cost of past wars, we have a total that accounts for approximately 20% of the national income.

A distinguished elder statesman whom I am not at liberty to identify tells us that the Federal budget, without any new additions — merely carrying forward commitments already made by the Federal Government—cannot possibly be less than $62 billion in 1952.

What does this mean, particularly if in the interval we have a business depression and the earnings bases on which the bulk of our Federal taxes rests are sharply reduced?

It means, of course, that our government, having accustomed itself to a Rolls-Royce living standard, will be both unwilling and probably unable to reduce its living costs in line with national income. It means, therefore, a renewed resort to government borrowing. I cannot help wondering, under those circumstances, what role the banks will play in financing government requirements and whether that role will be a voluntary role. It may be wise for us to start thinking about the word "allocation" and thinking about it in an entirely new context.

Government-Held Bonds—A False God

It is also my view that a great deal of the worship of governments bonds as an ideal component in a bank's portfolio is worship at the feet of a false God. With all the qualities of liquidity which such bonds have, the fact is that their presence in bank portfolios has given many bankers in recent years distinctly uneasy moments.

A year ago last December the Reserve authorities in their wisdom decided that the peg on government bonds would have to be lowered. It appears that through some subtle and to me incomprehensible osmosis the yield on a government bond was related to the price of hamburgers. The housewife was on the warpath because food prices were too high. Our masters on the Federal Reserve Board reasoned that a decline in the bond peg would bring relief to the harassed housewife. As a result of that action it was estimated that the portfolios of commercial banks in this country lost some $400 million in market value overnight. This may have been simply an isolated, positively non-recurring incident. It is hard to forget that for the average bank it affected the value of almost three-fifths of its loan and investment portfolio.

Is there anything that can be done about this vulnerable and uncomfortable position? A first and obvious step is to urge upon the government some measure of self-control in expenditures. Possibly the ideal of security from the cradle to the grave, with government-provided medical attention and subsidized lunches for school children is commendable. On the other hand, those who have tried in the past to achieve Utopia by fiscal short-cuts have always come to grief. I doubt if this situation has changed. It may be time for us to ask our government to live within its means just as all the rest of us are forced to do.

Re-establish the Gold Standard

A second step is to compel that government to re-establish the gold standard from which it departed in 1933. In spite of the wisdom and incorruptibility which our money managers profess, the world contains no present demonstration of successful, continuous money management. The record of the past is similarly devoid of any such demonstration. The only known effective check upon fiscal extravagance in the past has been the gold standard. To be sure, it limits the freedom and cramps the style of the boys who know what is best for us. It may well be that that is its major virtue.

What will happen if this country returns at once to a metallic standard? Will there not be a rush for conversion which will denude the mint of all its gold? That is a possibility. It may well be that many men and women with folding money who have become increasingly distrustful of its ultimate value may seek refuge in the haven which gold has immemorially provided.

Against that possibility we propose an intermediate step. Let the Treasury cling to its present stock of gold and hold it for conversion purposes at some future date when a stampede is less likely. There is no reason why we cannot do what was done in this country in the period from 1861 to 1879 and permit the operation of a free gold market. In such a market the gold currently produced in the mines of America and sent here from other parts of the world can be freely bought and sold. There is no reason why Americans should not be granted the privilege which the Mexican peon, the French peasant, and the Chinese coolie now enjoy.

The gold producer on his part should have the right to sell his gold to the Treasury at $35 an ounce or wherever, under conditions of a free market, he can get a better price. Such a market will provide a test to determine the real value of the dollar and the proper basis on which to return to gold. It will avoid a stampede for the yellow holdings of the Treasury and will make possible the deliberate selection of some point in the future where it will be safe and practical for our country to return to a gold basis.

I have no illusions about such a step. I do not think that by itself it will suddenly make our government economize. This will call for a change in the concept of government which has developed during the past decade and a half. It will call for a recognition by our citizens that Uncle Sam cannot borrow indefinitely, spend recklessly, and support large segments of our population without reference to their productive functions.

It will, however, tend—and I emphasize tend — to check the debt-creating propensity of our government. It will place back of Uncle Sam's present I O U's an ultimate, solid, tangible value. It will tend to limit the total of government debt, and will promote conditions under which, in the course of time, the importance of this dominant debtor of the banking system can be reduced to a point where he can once more attain those dimensions as a borrower which will deny him the power to undermine, and possibly destroy, our free banking system.

News About Banks and Bankers

(Continued from page 14)

Charles B. Barnes, Jr., Stanley M. Bolster, Donald C. Bowersock, Charles Brewer, R. Ammi Cutter, Wallace J. Falvey, Seth T. Gano, Joe W. Gerrity, H. Frederick Hagemann, Jr., Ernest A. Hale, Charles E. Hodges, Arnold W. Hunnewell, W. Frank Lowell, Elmore I. MacPhie, Edward Motley, Harrison G. Reynolds, Bayard Tuckerman, Jr., Quincy W. Wales, Samuel H. Wolcott, Jr. and George L. Wrenn, 2d. All officers were reappointed, with the following advancements: Ralph L. Donnelly, and William H. McCabe to Assistant Vice-Presidents; Walter E. McDermott, Assistant Cashier, to Assistant Trust Officer. Lewis R. Power was appointed Assistant Cashier. The consolidation of the National Rockland Bank and the Webster and Atlas National Bank, under the name of the Rockland-Atlas National Bank, effective Oct. 15, was referred to in our issue of Nov. 4, page 1873. On Dec. 31 the consolidated institution reported total deposits of $84,075,000.

Stockholders of the **National Bank of Commerce and Trust Co. of Providence, R. I.** voted on Jan. 18 to liquidate the institution, in pursuance of plans for its operation as the Commerce Office of the **Rhode Island Hospital Trust Co.** and the **Rhode Island Hospital National Bank of Providence** after the close of business Jan. 31. The Providence "Journal" of Jan. 19 in indicating this, also said:

"Sale of the bank to the Rhode Island Hospital Trust Co. was announced last Dec. 16 when it was revealed that the latter firm acquired more than two-thirds of the 17,000 shares of outstanding stock on an offer of $135 a share."

Reference to the plans appeared in our issue of Nov. 18, page 2085.

David J. Connolly was on Jan. 26 elected President of the **Federal Trust Co. of Newark, N. J.**, succeeding Frank C. Mindnich, President for the last 16 years, who has been named Chairman of the Board. This is learned from the Newark "News" of Jan. 26, which states that Harrison P. Lindabury retired as Chairman, but remains as a director. Mr. Connolly, formerly identified with the management of the Newark Clearing House, went to the Federal Trust in 1934 as Vice-President, and in 1938 took over the added duties of Treasurer said the "News." Mr. Mindnich, President of the Trust Co. since 1933, started with the institution as a bookkeeper in 1904. The "News" reports that he was recently re-elected to the Clearing House Committee, and is a member of Governor Driscoll's Banking Advisory Board. Mr. Mindnich is President and a Director of A. W. Faber & Co., Newark, pencil manufacturers.

The election of Myron D. Goggin as Vice-President and a board members of the **West Side Trust Co. of Newark, N. J.**, was announced on Jan. 27 by Ray E. Mayham, President and Chairman of the Board, according to the Newark "News." Mr. Goggin, who has been with the company since 1929 has been Secretary since 1945, and will continue in that post. David R. Gardner, Controller, since 1937, has been elected Second Vice-President, Paul M. Anderson, Assistant Vice-President since 1945, succeeds Mr. Gardner as Controller.

F. Guy Rutan, Secretary of the Wigton Abbott Corp., engineers of Plainfield, N. J., has been elected a director of the **State Trust Co. in Plainfield.**

The capital of the **First Mechanics National Bank of Trenton, N. J.**, has been increased to $800,000, from $400,000, by the sale of $400,000 of new stock. The weekly bulletin of the Comptroller of the Currency indicates that the enlarged capital became effective Jan. 3.

With reference to the increase effective Jan. 17 in the capital of the **Tradesmen's National Bank & Trust Co. of Philadelphia** from $3,993,000 to $4,232,580, referred to in our issue of Jan. 27, page 474, the annual report, Jan. 11 of Howard A. Loeb, Chairman, and James M. Large to the stockholders referred to the recommendation by the directors of a stock dividend of 6% increasing the capital as indicated, and added:

"The board of directors has also authorized the transfer of $300,000, from undivided profits to surplus. If the stock dividend is approved, $239,580, will be transferred from undivided profits to capital, and $300,000 from undivided profits to surplus, increasing the latter account from $4,200,000 to $4,500,000. The dividend was paid to stockholders of record Jan. 7.

The Harrisburg National Bank of Harrisburg, Pa. announces that at the recent annual meeting Jan. 12 of the directors, the retirement due to ill-health of Howard A. Rutherford, as Vice-President and Cashier, after 60 years of continuous service with the bank, was accepted with regret, Harry G. Harman was elected Cashier; Herman H. Leisman was reappointed Assistant Cashier; and Charles R. Alexander, J. William Barnhart and John W. Crist were appointed additional Assistant Cashiers.

Clark L. Kelly, of Louisville, Ky., will join the staff of **The Bank of Virginia at Richmond, Va.**, Feb. 1 as Vice-President in charge of Correspondent Bank Relations, according to an announcement on Jan. 28 by Thomas C. Boushall, President of the bank. Mr. Kelly comes to Virginia from the Citizens Fidelity Bank and Trust Co. in Louisville, where he was Assistant Vice-President. Hartwell F. Taylor, Assistant Vice-President in charge of the South Richmond branch of the Bank of Virginia, is being promoted to the Correspondent Bank Division to assist Mr. Kelly. Mr. Taylor has been with the Bank of Virginia since 1933 and an Assistant Vice-President since 1946. He currently is Vice-President of the American Institute of Banking.

At their annual meeting on Jan 19 the stockholders of the **Cleveland Trust Co. of Cleveland, Ohio** approved an increase in the capital from $13,800,000 to $15,000,000. The Cleveland "Plain Dealer" noted that the capital increase of $1,200,000 will provide a stock dividend in ratio of one share of new stock for each 11½ shares of old. Stock dividend it was added would be paid Feb. 15 to holders of record Feb. 1. This makes the ninth time the capital stock of the bank has been increased from the original $500,000 in 1894.

Action toward increasing the capital of the **Ohio Citizens Trust Co. of Toledo, Ohio**, from $600,000 to $1,000,000 was taken at the annual meeting on Jan. 18 of the stockholders. The additional $400,000 said the Toledo "Blade" is being transferred from surplus to capital account and new stock distributed on a five-for-three basis. As a result, the number of $20 par shares will be raised from 30,000 to 50,000. From the "Blade" we also quote:

"One expected result of the move, said Willard I. Webb, Jr., President, is to lower the market price of Ohio Citizens stock and make it more attractive to smaller investors. Announced at the meeting was the election of Arthur B. Bare, associated with the bank since it opened in 1932, as Assistant Vice-President, and William S. Miller, who joined the trust department in 1945, as Assistant Secretary. Other officers, headed by Mr. Webb and Seymour H. Hoff, Executive Vice-President, were re-elected.

W. L. Alexander, Jr., was elected President of the **State Bank of Toledo, Ohio**, on Jan. 20, filling the vacancy created by the death on Jan. 9 of Claire H. Speck. Mr. Alexander, who had been Vice-President and Treasurer, will continue as Treasurer, according to the Toledo "Blade," which added that the directors named Ray Peirce, a member of the board, as Vice-President.

At their annual meeting the stockholders of the **Bank of Chicago, Chicago, Ill.**, voted to increase the capital of the bank from $200,000 to $300,000. The Chicago "Journal of Commerce" reporting this, in its Jan. 21 issue, stated that the surplus is to be raised from $50,000 to $100,000.

William A. Mayberry at the recent annual meeting of the **Manufacturers National Bank of Detroit, Mich.**, was elected President succeeding Charles A. Kanter, who became Chairman of the Board. Mr. Mayberry, formerly Executive Vice-President of the bank, is President of the Detroit Board of Commerce. William A. Howe and William C. Maynard were promoted at the recent meeting from Assistant Cashiers to Second Vice-Presidents of the bank.

At its meeting on Jan. 13, the directors of the **Federal Reserve Bank of St. Louis** elected officers, except the President and First Vice-President who had previously been elected for five-year terms. The officers are: Parent Bank: Chester C. Davis, President; F. Guy Hitt, First Vice-President; Olin M. Attebery; William H. Stead and W. E. Peterson, Vice-Presidents; Howard H. Weigel, Assistant Vice-President and Secretary; S. F. Gilmore, Frank N. Hall, G. O. Hollocher, J. H. Gales, F. L. Deming, Earl R. Billen, and John J. Christ, Assistant Vice-Presidents; Joseph C. Wotawa, General Auditor. Lewis H. Carstarphen, whom Mr. Weigel succeeds as Secretary, recently resigned as Secretary and General Counsel to devote more of his time to his own affairs. Mr. Carstarphen will continue as Special Counsel on a part-time basis.

Branch officials are: Little Rock Branch: C. M. Stewart, Vice-President and Manager; Clifford Wood and Clay Childers, Assistant Managers; Louisville Branch: C. A. Schacht, Vice-President and Manager; Fred Burton, Lee S. Moore and L. K. Arthur, Assistant Managers. Memphis Branch: Paul E. Schroeder, Vice-President and Manager; S. K. Belcher, C. E. Martin and H. C. Anderson, Assistant Managers.

W. L. Hemingway, Chairman of the Board of the Mercantile Commerce Bank and Trust Co. of St. Louis, was elected to represent the St. Louis Federal Reserve District on the Federal Advisory Council. Mr. Hemingway succeeds James H. Penick, President of the Worthen Bank and Trust Co. of Little Rock, Ark., who served as a member of the Federal Advisory Council during the past three years.

At the annual meeting of the Directors of the **Mercantile-Commerce National Bank in St. Louis**, Gale F. Johnston, President, announced the following promotions among the personnel of the bank: Ralph D. Griffin, formerly Vice-President was promoted to Executive Vice-President. Mr. Griffin is also a member of the bank's Board of Directors and has been a Vice-President since 1939. Frank B.

Merget, formerly Cashier who made Vice-President and Cashier. Mr. Merget entered the Safe Deposit Department of the bank in 1935, became Assistant Cashier in 1942 and Cashier in 1945. John B. Mitchell was elected Vice-President. Mr. Mitchell has been associated with the bank since 1936. He served with the Coast Guard during the war and became Assistant Cashier in 1947 and Assistant Vice-President in 1948. William F. Impey was promoted from Assistant Vice-President to Vice-President. He joined the bank in 1938 and was made Assistant Vice-President in 1946. Walter L. Kaltwasser was promoted from Assistant Cashier to Assistant Vice-President. He was first employed by the National Bank of Commerce in 1927, joining the Mercantile-Commerce Bank & Trust Co. in 1929 and transferring to the Mercantile-Commerce National Bank in 1934. Other promotions announced were: Howard E. La Barr, Manager of the Credit Department made Assistant Vice-President, Henry E. Jenkins, Jr., Assistant Cashier promoted to Assistant Vice-President in the Central Service Division of the Bank.

The Boatmen's National Bank of St. Louis announces the election to the board of directors of A. Wessel Shapleigh, President, Shapleigh Hardware Co. and Lewis B. Stuart, Vice-President, Ralston Purina Co.

Through a stock dividend of $140,000 the **First National Bank of Cape Girardeau, Mo.**, increased its capital, effective Dec. 22, from $140,000 to $280,000.

James L. Ross was named Executive Vice-President of the **National Bank of Commerce** in **Memphis, Tenn.**, at the annual meeting of directors on Jan. 11, W. B. Pollard, President, announced following the meeting. The Memphis "Commercial Appeal," from which we quote, noted that Mr. Ross, who was Vice-President and a director, began his connection with the bank in 1923, serving in the Bond Department, then an Assistant Trust Officer and later as Vice-President and Trust Officer.

The new Fresno home of the **Anglo California National Bank**, head office, **San Francisco**, opened for business on Jan. 29, it was announced by Allard A. Calkins, President. The opening marked the completion of many months of planning and construction work, which have resulted in the conversion of the former Holland Building, purchased by the Anglo Bank in 1946, into a modern and attractive bank and office building. The bank occupies a large portion of the ground floor and basement of the four-story building. Since its establishment in 1946 the Anglo's Fresno office had been located temporarily in the former U. S. Post Office building. Anglo's Fresno staff is headed by A. B. Nordling, Vice-President and Manager.

With the purchase of the **Bank of Amity in Amity, Yamhill County, Oregon**, the **United States National Bank of Portland, Ore.**, has added its 37th branch in its state-wide banking system, E. C. Sammons, President, has announced. The Yamhill County financial institution opened Jan. 3 as the Amity Branch of the United States National. H. W. Torbet, President of the Bank since 1941, became Manager of the branch under the new set-up and Frank L. Chambers, cashier, became Assistant Manager.

J. A. Hogle & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—I. S. Schlesinger has been added to the staff of J. A. Hogle & Co., 507 West Sixth Street.

Administrative Intrigue

(Continued from page 3)

had? What took place at these conferences? Is NASD strategy the product of SEC direction? Is it the view of the NASD that its members by the mere act of joining have waived their fundamental legal rights and constitutional privileges?

The grinding of this upper and nether millstone in unjust forays is depressingly alarming. Only wealth can stay it. The small fellow hasn't a chance. He is licked before he starts.

Fortunately, because Otis & Co. can stand the gaff, beneficial precedents are being established for the entire securities industry.

We have on occasion urged the abolition of the SEC. Its present role as persecutor confirms our judgment. As an administrative body in the securities field the SEC has outlived its usefulness. Congress would do well to remove this barnacle.

Current Asset Replacement versus Book Values Highlight Cheapness of Common Stocks

(Continued from page 8)

ments of the 30 companies comprising this average, these changes are shown below:

	30 Dow-Jones Industrials		
	12-31 1939	12-31 1947	12-31 1948 Est.
Gross Plant*	128	197	220
Net Plant*	72	98	114
Senior Capital†	32	48	
Net Working Capital	46	82	
Inventories	29	55	
Book Value	96	139	150

*Fixed assets. †Funded debt and preferred stock.

Under the stimulus of war and immediate postwar demand, plant capacity of the 30 Dow-Jones industrial companies was expanded considerably. This is indicated by the increase in the gross plant figure, which was 128 at the end of 1939, and increased to around 163 by the time the war ended. The postwar plant expansion program carried this to 173 by the end of 1946, to 197 by the end of 1947, and to an estimated 220 by the end of 1948. It should be realized that each succeeding year plant was put in place at higher costs.

It is probably fair to assume that plant and equipment in existence in 1939 had by that year been depreciated to the extent where annual depreciation and obsolescence charges were equivalent roughly to the annual replacement at costs then prevailing. Book values of assets in the 1930's had been lowered by many companies to accord with government regulation TD 4422 directing firms to re-appraise the remaining life of their fixed assets. The purpose of this was to reduce depreciation charge-offs.

The depreciation rate in 1939 was equivalent to 3.7% of gross plant; in 1947 it was 3.6%. This rate was adequate in the prewar period but subsequently, however, as construction costs increased, the depreciation charge-off was insufficient to take care of the needed replacement and corporations had to increase their investment merely to maintain the existing plant. Thus part of the increase in gross plants now on the books represents this added cost. The same would apply to new plant added each year since 1939 which required replacement.

Of the 220 estimated gross plant at stated book value for the 30 Dow-Jones industrial average at the end of 1948, it is estimated that the extra cost of replacement represents 20, and new plant added represents 72. In addition, there is the 128 original plant carried forward from 1939, but of this 41 represents replacement — which means that about one-third of the 1939 plant has been rebuilt.

At 1948 construction cost levels, the aggregate plant of the 30 Dow-Jones industrials would, of course, be worth much more than 220. An estimate of present replacement cost can be calculated by assuming (1) the original 1939 plant was maintained throughout the succeeding years in the 1939 condition and (2) any improvement to the plant as it existed in 1939 together with additional plant constructed is considered new plant. The annual average of the seven construction cost indexes can serve as a measure of the increase in value. The advance of 108% in this aggregate index since the prewar period would make the 1939 plant worth that much more at the present time; and the improvements and additions to plants calculated for each year since 1939 would be worth more by the extent of the rise occurring in the aggregate cost index since the year in which these were made or put in place.

Present Replacement Value Double Prewar

Following this method, the original 1939 prewar plant of 128 if maintained in substantially the same condition would at the end of 1948 have an estimated book value of 147 and a replacement value of 267. Improvements and additions to the 1939 plant with book value of 72 would have a replacement worth of 98. The figures indicate that plant improvements and additions since 1939 now comprise 27% at physical plant account.

Inventories of the 30 Dow-Jones industrials at the end of 1947 figured at 55 as compared with 29 at the end of 1939. Replacement value at the present time is estimated about 10 points higher because some of the companies carry inventory below current cost or market. A perusal of the 1947 annual reports of the 30 Dow-Jones industrial companies revealed that four used the "Lifo" method for most of their inventories and three others had set up stipulated inventory reserves. Of the remainder, 13 carried inventory "at lower of cost or market," four "at or below cost," five "at cost," and one "mostly at retail inventory method." In addition to the three which had specific inventory reserves, 19 carried contingency, postwar, general, and other reserves.

Finally, coming down to the problem of the net replacement value of the 30 Dow-Jones industrial stock average there should be added to the stated book value, which at the end of 1948 was around 150, the foregoing estimated increase of 145 points in gross plant value and the estimated 10 points increase in inventory value. This yields a figure of 305. The estimated net replacement value for each year since 1939 together with other pertinent data on the 30 Dow-Jones industrial stocks is shown in Table 1.

If in 1949 construction costs continue the rising trend, the replacement value of the plant will rise further and this in turn will carry the net replacement value of the 30 Dow-Jones average higher. However, it is reasonable at some point to expect a correction in the cost of construction and in commodity prices. This, too, will affect net replacement value but on the downside. It was pointed out that after World War I a correction of about 17% occurred in construction costs from the high year to the subsequent period of stability.

In the present case, let us assume a correction of 20%. The effect of this would be to drop the net replacement worth of the present plant about 70 points from the comparable 1948 year-end figure, and hence decrease by a like amount the net replacement value of the 30 Dow-Jones industrial average. Commodity prices would also drop and affect inventory values, thus further reducing the net replacement book value. Nevertheless this latter would still come to around 225 even after a correction of the scope here assumed and compares with the stated book value of 150 at the 1948 year-end.

The 30 Dow-Jones industrial stock average represents a good cross section of American business. The companies included represent large enterprises which usually are the leaders in the industry. The plant and equipment represent mostly modern and efficient producing capacity which should give a good account of itself from an earnings standpoint under normal competitive conditions. Over the longer term future the high net replacement book value should tend to be reflected more fully in the market price.

TABLE 1

ESTIMATED NET REPLACEMENT ASSET VALUE OF THE 30 DOW-JONES INDUSTRIAL AVERAGE

		30 Dow Jones Industrial Average			
	7 Construction Cost Indexes Average 1935-39=100	Book Value *	Est. Net Replacement Book Value †	Middle Price	Earnings
1939	104	96	96	139	$ 9.11
1940	106	99	107	133	10.92
1941	115	103	122	120	11.64
1942	125	108	140	107	9.22
1943	128	114	148	133	9.74
1944	130	119	157	144	10.07
1945	135	123	165	174	10.47
1946	159	131	206	188	13.50
1947	188	139	263	175	18.63
1948	208	150†	305	180	22.00†

*At year-end. †Approximate.

E. K. Diehl Joins Walston, Hoffman Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Edward K. Diehl has become associated with Walston, Hoffman & Goodwin, 550 South Spring Street. Mr. Diehl was formerly with Buckley Brothers and prior thereto was an officer of First California Company.

With J. H. Goddard & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Frederick W. Doyle is now with J. H. Goddard & Co., Inc., 85 Devonshire Street.

With Hannaford & Talbot

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Glenn E. Burton has become affiliated with Hannaford & Talbot, 519 California Street. Mr. Burton was previously with Sutro & Co.

Johnson & Co. Formed

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Stefan Johnson has formed Johnson & Co., with offices at 235 Montgomery Street to engage in the securities business.

With Brereton, Rice Co.

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO. — Lyle L. Brush has joined the staff of Brereton, Rice & Co., Inc., First National Bank Building.

William S. Beeken Adds

(Special to THE FINANCIAL CHRONICLE)

WEST PALM BEACH, FLA.—Ian R. Rice has been added to the staff of William S. Beeken Co., Guaranty Building.

Dean White & Co. Formed

WALLACE, IDAHO — Dean White & Co. has been formed with offices in the Civic Center Building to engage in a securities business.

Arch R. Morrison With T. Nelson O'Rourke

(Special to THE FINANCIAL CHRONICLE)

DAYTONA BEACH, FLA.—Arch R. Morrison has become associated with T. Nelson O'Rourke, Inc., 356 South Beach Street. Mr. Morrison was formerly with Ranson-Davidson Company in Miami.

Arch R. Morrison

Fred O. Fleischer Joins Ames, Emerich & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Fred O. Fleischer has become associated with Ames, Emerich & Co., Inc., 105 South La Salle Street, members of the Chicago Stock Exchange. Mr. Fleischer was formerly an officer of First Securities Company of Chicago.

Two With Herrick Waddell

(Special to THE FINANCIAL CHRONICLE)

TAMPA, FLA. — William S. Carpenter and William P. Harrell have become associated with Herrick, Waddell & Co.

With John L. Ahbe Co.

PALM BEACH, FLA. — Kenneth W. Hewitt has become affiliated with John L. Ahbe & Co., 268 South County Road.

With Conrad Bruce Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Stuart L. Greenberg is with Conrad, Bruce & Co., Russ Building.

Truman for Planned Economy

(Continued from first page)

businesses were going to go to the wall because they didn't have any government contracts.

And it turned out that most of those worries were not necessary. We had to find that out by experience.

I have been interested to planning all my life. I said all my life—ever since I was old enough to understand what the word meant. You know we plan our day's work. We plan the houses in which we are going to live—if we can afford to build one, and we can't, these days. And then we plan our public buildings and our private buildings. We plan cities now—and towns.

But, when we talk about planning the things we want to do economically we are charged with being Communists and fellow-travelers.

I think that the difficulty is that instead of the word "planning" the people who find fault with us when we talk about planning for economic purposes are thinking about controlled economy, not planned economy. The distinction is different, if you analyze it closely.

And I think that we have started out on a program of trying to plan our economic future so we won't have the difficulties that we have had after other situations, such as we have been through in the last ten years.

We have an Economic Council now, and we have a legislative committee in the Congress known as the economic committee. And those people are trying to analyze the situations with which we are faced, to see if we can meet those situations before they cause us difficulties.

You remember after the Jackson Administration, from 1828 to eight years later, they had a tremendous panic in the Administration of Martin Van Buren, who followed Jackson. And after the war between the States, 1873 came along; and then in 1893—for no good reason at all that anybody could ever understand—we had another one.

Then in 1907 we had a bankers' panic, which was one of the funniest ones we ever had in the history of the country, and at that time I was working in a bank out in Kansas City. And they had the most difficult time in 1907 that I ever heard of. And nobody understood the cause—the why or wherefore of it.

And then, after World War I, in 1921, we had a very difficult situation. I was in that one, to. That was when the business man got into politics—ran on a platform in my county, a busted merchant against a very able and distinguished banker — and won the election.

Then, in 1929, and 1930, 1931 and 1932, you all remember the situation with which we were faced at that time. And some of the people in government and in business decided that maybe we might be able to head off a situation of that sort after this terrible war which we have just been through and we have been endeavoring to the best of our ability to stave off the situation with which we were faced in 1921, and in 1931. And to some extent I think we are succeeding.

And I am of the opinion that this organization can make a very great contribution to the efforts which are being put forth by the economic advisers to the President and by the Economic Committee of the Congress of the United States, and probably meet the situations before they really develop into disaster for the economy of this great nation.

It is absolutely essential that the economic structure of the United States of America remain absolutely sound and prosperous, for the simple reason that we are in a different position now than we have ever been in our history. We have to, due to events over most of which we had not much control.

We have become the symbol of what governments should stand for—the welfare of the people.

And we have become actually the international leaders in the welfare of the world as a whole. I tried to set that out as clearly as I could in the Inaugural Address, as to what our responsibilities are under the United Nations set-up, and in order to meet those responsibilities we must ourselves be in a position to meet them; and in order to be in a position to meet them we must be economically sound.

And I think that the Employment Act, under which these measures have been taken and are being taken, is one of the most forward-looking pieces of legislation that we have had in the history of this great nation of ours. And I think that before any disaster with which we may be faced comes about we will be in a position to meet it.

We have some of the ablest economists and some of the ablest and most practical men working on this situation. We are now faced with some Governmental planning, on which the former President of the United States, Mr. Hoover, has been working with great effort, and who I am sure is coming forward with a great program for the economic operation of the Government of the United States.

I am sure that when that program is presented to the Congress we will have all sorts of cries and wails from people who are anxious to have certain special pets of their own left in the same position in which they are now. I have already had a stack of mail that high about this bureau and that bureau, this organization and that organization, which ought not to be disturbed.

And I imagine that unless the people are fully informed as to what the efforts are we ought to put forth for that sort of planning we will have the usual result of nothing accomplished.

I have sent a great many reorganization plans to the Congress of the United States while I had the power to do that, and I think only one of them was approved. The others were all disapproved because some pet organization had a lot of ability to put out propaganda to prevent the reorganization of the Government on an economic basis.

Now, this organization can be of great assistance in getting an efficient setup for the Government. There are an immense number of boards and bureaus that have the authority to report to the President of the United States. If I spent my time talking to every one of those organizations I wouldn't do anything else but talk to them, and probably not get much more done than is done without talking to them.

You know, they talk about the powers of the President of the United States. You know what those powers are principally? Trying to get people to do what they ought to do without being asked to do it!

The President spends most of his time kissing people on the cheek in order to get them to do what they ought to do without getting kissed! First on one cheek and then on the other.

And if we can get this efficient organization with which Mr. Hoover has been working into operation then maybe we can get it to operate without any persuasion on the part of the President, and can do the job that he is employed to do. He has had a raise in salary and he can work a little harder. I work only 18 hours a day now. Maybe I can put in 20 now.

I can't tell you how very much I appreciate the privilege of coming over here. I am very much interested in this organization and what you are trying to accomplish. I have been interested in county and city planning, and I am interested now in world planning for the welfare of the whole world.

And that is the job that is ahead of the United States of America, to meet the responsibilities which God gave us in 1918 and which we did not assume. We have it now again given to us. We must assume it. We must carry it out.

And we will continue just that, I am sure, because it is necessary that we do it or else go back to the ninth century. And we can't afford to do that. I don't want to see that happen.

I want to thank you very much for asking me to come over here. I wish I could have been with you for the dinner, and I wish I could stay longer, but I have to go back and put in four more hours to make up my eighteen hours.

Double Taxation and The Security Markets

(Continued from page 13)

They have been used to savings banks. They know little about equity money and what they have learned may have been through a tough lesson as often they have become the easy mark of unscrupulous promoters. I doubt the wisdom of the investment banking business setting out to urge them into equities today. I am sure the investment bankers have not nor will not try to do so and I am quite sure that if they did they would lose money in the undertaking for it would be too expensive to cover them. So that group, that ever-expanding group, that group that has so large a percentage of present investment in the aggregate in business enterprises today is no source from which future equity capital can be expected to absorb equity offerings when they come into the market place. I doubt under any circumstances the wisdom of such investors entering the unseasoned equity market at any time. However, eliminate their tax on dividends and I assure you the potential flow of capital in the secondary equity markets may well be enormous.

We come to those whose incomes indicate well-being but not wealth—incomes over $5,000 but under $25,000. They are undoubtedly proportionately larger per capita investors in equities. I venture to say they are not, as a class, experts in equity financing. They are rather like a newly-developed country. In such a country of pioneers the interest of the people in investments lies primarily in what they know the most about, so it rests in land, mortgages, mortgage bonds and government bonds as investments. It takes time to educate them. If this comparison is sound, then in time this group will possibly become more equity-minded. If the stock market goes plunging forward they will rather quickly become equity-minded. We have observed such a phenomena in the late 20s. I put many of this group in the category that can be expected to buy at the top and be forced to sell at the bottom of a market, and many who are a little too cautious or not sufficiently acquainted with those behind the scenes to get in on the ground floor of good new industrial ventures. There are in this group potential buyers of equities, but they are not among those to be counted on—they are not standing by, so to speak, ready to support new issues of sound equity financing, they are not standing around jingling their money in their pockets waiting to use it when a good opportunity offers.

In the higher and highest income brackets we find the more sophisticated buyers, the men who jingle their money, but the higher we go up in this remaining group the incentive to add to present equity holdings becomes less and less until it almost disappears because of taxes—because of this double taxation in part, at least.

There is the security market problem in a nut shell.

Nothing to Lose by Elimination of Tax

What have we to lose from an elimination of a tax, which I said in the beginning, I doubt if we would invoke initially today? Obviously, we will lose revenue. To the present administration this is all important. However, as it does not merely soak the rich today it may well be a less popular tax in some minds.

What do we gain in the market place for equity securities from an elimination of the tax? How would such a gain enhance our entire economic picture?

Not many years ago I had a talk with the present Secretary of the Treasury during which my note of caution was sounded, probably unnecessarily, with regard to the possibility of our stock market catching the fever of inflation resulting in dizzy headaches. I mention this to show merely that I am not now speaking as an advocate of a stock market boom nor anything approaching it. We need sound reasons for investment, not unsound reasons for speculation and investing in seasoned equities may be far from so-called speculating. Yet in the field of investing we all must speculate in the future for it is the future that alone unfolds the value of present-day investments of whatever kind they may be.

As to venture capital wherein risks are greater, at a forum last year under the auspices of this league, Mr. Lammot duPont showed that, counting risks and average fatalities together with the taxation existing at the time, the odds against an investor in venture capital were 7.5 to 10. The odds the popular gambling games gave were about 8.3 to 10. Venture capital then had a better chance at the modern equivalent of the once famous Canfield's.

As to investing in seasoned equities or equities of seasoned companies' risks play a lesser part, but taxes play one substantially the same.

Need a Survey of Incentives

We need in our economy a survey of the results of our method of government-created incentives. For example, the government incentive to corporations is to finance by borrowing because it is cheaper tax-wise. For many investors in equities it is cheaper tax-wise to gamble on a capital gain for income rather than to invest in equities for income. For some it is more alluring to gamble in drilling for oil than in buying into a manufacturing industry, because the government gives a tax exemption to increase the production of oil which it fails to give to an investor in equities. To industry it often is better to accumulate earnings and plow them back rather than distribute them and then try to sell equities in a market made difficult by our government's reduction of incentive. Industry finds it better to sell privately to a few, its interest-bearing securities, avoiding thus the excessive cost of registering them with the SEC rather than give the public a chance to buy into its business, thereby excluding the ordinary investor from a chance to invest in what is often the cream of the crop of industries.

Let us remember that, in general, industry which produces the source of the revenue taxed in this discussion prefers equity financing when possible. We have in the so-called double taxation an unfair tax that is imposed today presumably solely to increase revenue, but which hinders equity financing which increases revenue. By the total elimination of this tax we might reduce the Federal revenue by an estimated $1.6 bilion gross to $2¼ billion gross. It certainly would not reduce it by either amount net. I mean by "gross" and "net" that if the tax in question is eliminated, while it will create loss of revenue, the loss will be offset in part by revenue from other sources which will be increased by the very act of eliminating this tax.

For example, by eliminating the tax a healthy incentive will be restored to purchase equities for investment and for income resulting in producing more funds for new businesses and for expansion of established corporations. These funds are insufficient now. This means an added opportunity to expand old enterprises and start new ones or undertake new lines of endeavor through new equity capital. Such undertakings cannot but mean more business, more payrolls and more profits. Salaries, wages and profits are taxable and that added revenue received by the government helps to offset the loss from the eliminated tax.

Cheaper Financing Without the Tax

Further, through elimination of this tax and an increase in consequence of funds available for investment in the ownership of industry there results in often safer and invariably cheaper financing for the present, a continuing into the future. Any decrease in such expenses means gain in taxable corporate profits which again add to revenue and decreases the gross loss of tax money if this tax is eliminated.

We should talk about a net loss of revenue in this case, not a gross loss.

Let us argue all we want about this subject. Let us talk from a socialistic viewpoint or from any other angle. Let us talk from any income bracket you please. It remains an unfair tax. The tax does not help our financial security, it does not even take away from the rich to give to the poor. At least about half of the income on which that tax is based is received by people with less than $25,000 net income per annum, and let us not forget that somewhat over $1½ billion of dividends are received by those receiving $5,000 or less per annum. In the name of heaven, why not study the question first with a view to continue what greater incentive to a thorough examination of the tax and its results by the Congress can we ask for?

Earl K. Madsen With A. C. Allyn & Co., Inc.

(Special to The Financial Chronicle)

OMAHA, NEB.—Earl K. Madsen has become associated with A. C. Allyn and Company, Inc., First National Bank Building. Mr. Madsen was formerly with Buffett & Company for a number of years.

Economic Situation Basically Strong

(Continued from page 4)

products, which will lead to a broadening of consumer demand.

Administration Program

The promising business outlook is supported by an Administration program which has been, and will continue to be, directed toward maintaining a high level economy.

An important Administrative objective has been to prevent the development of unbalanced conditions that might lead to a business recession, as has been the experience on many occasions in the past. I do not recall any recession that has not been preceded by a period of excessive speculation, or by over-buying, over-borrowing, or over-expansion.

At present, there is no evidence of undue speculation. Inventories have been kept at moderate levels by cautious buying policies. Bank loans in the past year showed only a moderate rise. Neither business nor residential construction has yet expanded enough to meet present needs.

High-level prosperity in the years ahead can be promoted by encouraging a healthy business development, while continuing to restrain the excesses which in the past have been responsible for business recessions. Such a policy is, and will continue to be, the Administration's program.

Our economic situation is strengthened by strong elements of protection that were not available in former years. Unemployment insurance will help to maintain the purchasing power of wage earners during any period of unemployment. The minimum wage laws, and other safeguards for labor, will also serve to maintain incomes and to protect the economy against a declining consumer demand. The farm price support program offers a similar protection to agriculture. The effectiveness of these measures lies not alone in their actual support to incomes, but in the sense of economic security which they give to consumers, thus encouraging a continued high volume of consumer demand.

Currently, a business factor of growing importance is the long-deferred construction programs of States and municipalities, which to date, in large part had been held up by material shortages.

The great shifts of population during the war years, together with the nation-wide wartime lag in construction, have created such a need for expansion of public and private utility services, homes, schools, hospitals, highways, and other construction, that these factors alone will be a powerful business influence for several years to come.

The nation has a huge task before it. We must meet the normal demands of a growing population with high living standards. We must provide additional plants and machinery to replace those worn out during the war. We must build new homes, new hospitals, new churches, and new municipal facilities. We must rebuild thousands of miles of highways. In addition to all this, we must do our part in the great task of world reconstruction, and we must build a powerful defense establishment, to the end that normal international relationships, free from the threat of war, may become re-established throughout the world.

An important cornerstone of our hopes for the future is the American character. May I say that many of the qualities which make up the American character are qualities which are evident in your industry and in the goods you produce.

No one can rightly estimate the extent to which American sports and recreational activities have influenced the American character. Surely there is no more productive source of training for young Americans in the team work of which I spoke earlier.

In our sports we learn to play fair, no matter how intense the competition. We learn to abide by the rules. We learn to pull together. We learn singleness of purpose. And what we learn serves us well, individually and collectively, when we reach maturity and assume the responsibilities of American citizenship and our governmental responsibilities.

Your industry loses no opportunity to encourage the cleanest conduct of our sports; to help see that American youth gets from his games the maximum mental and spiritual as well as physical benefit.

In this close identification with character building, your industry plays a vital role in our American economic life.

Time to Cut Costs, Says National City Bank

"Monthly Bank Letter" points out shift of business from a forward to a current basis, arising from increased merchandise supplies. Holds this means prices must be kept down, and rounds of wage increases ended.

In its analysis of general business conditions in the current issue of the "Monthly Bank Letter," the National City Bank of New York points out that though many factors are operating to maintain personal incomes and consumer buying power, there has been a shift of business from a forward to a current basis, made possible by increased supplies of merchandise and shortening of delivery dates, and therefore it is time to cut costs in order "that people can sell to each other."

"The question," continues the "Bank Letter" "is whether production will go on and payrolls be maintained, and the answer is that they will if the price and quality of output are such that people can sell to each other. Since the inflation has priced many people with lagging incomes out of the market, the essential matter is to keep costs and prices down.

"The general situation makes it plain that demands for fourth round wage increases are untimely. An example was set for all the industries in a decision handed down Jan. 17 by the permanent arbitrator, Professor Douglass V. Brown of Massachusetts Institute of Technology, in the case of a 10¢ an hour increase requested by the Textile Workers Union of America from the Fall River and New Bedford textile mills. Weighing the arguments, Professor Brown said:

"'A mistaken granting of a wage increase at this time, followed by no increase or an insufficient increase in demand, would open the door to the possibility of serious unemployment and loss of income to both employees and companies. . . . Taking into account the present situation in the industry, and weighing as best I can the probabilities in the immediate future, I am of the opinion that the denial of the wage increase at this time is in the interest of the companies, the union and the employees.'

"What is at stake in this case, as in many others, is the balance of price and wage relationships in the whole economy. Prices of the goods produced by these mills have dropped below the peak by nearly half in some constructions, and by 30 to 35% on the average, the decision says. Many prices are down to OPA levels, but Professor Brown noted that wages are 26¢ an hour higher than at that time. Despite the price decline, largely at the expense of profits, the mills have been unable to sell their output. They have accumulated inventory, and have cut their operations some 25%. A wage increase now would raise costs, and would raise prices or shrink profits further. In either case additional curtailment could be expected. When the markets will no longer absorb their products, workers who seemingly gain through higher wage rates must expect to give up the gains through unemployment. The markets narrow because other people do not, and in most cases cannot, receive equivalent increases in income. Some, as farmers, are receiving smaller incomes."

Business Man's Bookshelf

Causes of Industrial Peace Under Collective Bargaining—Hickey-Freeman Co. and Amalgamated Clothing Workers of America—Donald D. Straus—National Planning Association, Washington, D. C.—paper $1.00.

Guideposts in Time of Change—Some essentials for a sound American economy — John Maurice Clark—Harper Brothers, 49 East 33rd Street, New York 16, N. Y.—cloth—$3.00.

Nation's Heritage—New magazine issued every other month—published by Heritage Magazine Incorporated, a division of the B. C. Forbes & Sons Publishing Co., Inc., 120 Fifth Avenue, New York 11, N. Y.—$30.00 per copy; $150.00 per year.

Partners in Production—A basis for Labor-Management Understanding—The Twentieth Century Fund, 330 West 42nd Street, New York 18, N. Y.—cloth—$1.50.

Simplifying U. S. Customs Procedure—United States Associates, International Chamber of Commerce, 20 East 57th Street, New York 22, N. Y.—paper—25c.

Toward Freer World Trade—United States Associates, International Chamber of Commerce, 20 East 57th Street, New York 22, N. Y.—paper—25c.

Joins Hornblower & Weeks

(Special to The Financial Chronicle)

CHICAGO, ILL. — George A. Mandis has become affiliated with Hornblower & Weeks, 39 South LaSalle Street. He was formerly with Cruttenden & Co.

With Television Shares

(Special to The Financial Chronicle)

CHICAGO, ILL. — Fdgar N. Greenebaum, Jr., is now with Television Shares Management Company, 135 South La Salle Street.

Charles A. Day & Co. Adds

(Special to The Financial Chronicle)

BOSTON, MASS. — Charles F. Vaughan, Jr., has become associated with Charles A. Day & Co., Inc., Washington at Court Street, members of the Boston Stock Exchange.

Current and Future Capital Needs

(Continued from page 14)

been much too high to last. The idea has been that industry is rushing to catch up on plant and equipment purchases postponed by the war, and when that's done capital expenditures come falling down with a disastrous bang.

Our survey produces facts (I believe for the first time) which show that no such crash need eventuate. Given prosperity, industry already has plans which will sustain capital expenditures at a high level for years.

(3) Industry is shifting rapidly from purchases of plant and equipment to expand capacity to purchases to improve efficiency.

That fact should dispose of the widely-cherished notion that if industry could get the money to carry out its plans for capital expansion it would build itself and us into a depression through over-expanding capacity.

In 1946 and 1947 most of the investment for new plant and equipment went to expand capacity. But last year more than half (58%) went for replacement and modernization. And over the next five years about three-fourths (74%) of expenditures for new plant and equipment now planned would go for replacement and modernization.

(4) There is tremendous room for and need of improvement in America's industrial plant and equipment.

Facts produced by the survey suggest that somewhere near $100 billion would be required to bring the plant and equipment of American industry strictly up to date. This is not surprising in view of the years of skimping on investment in this field, first during the great depression and then during World War II.

Three-fourths of the manufacturing companies surveyed said that a piece of equipment must give good promise of paying for itself within five years before they will devote their limited investment funds to buying it. That is another very significant gauge of the wide room for improvement in plant and equipment.

(5) American industry is relying primarily upon its own resources, largely profits, to pay for its new plant and equipment.

Three out of four of the manufacturing companies surveyed will depend primarily on profits. A fifth of them reported that they would like to raise money by selling common stock, but only 9% thought they could. The utilities and railroads expected to rely much more heavily on outside financing.

That last finding perhaps concludes the highest points of the new information we have amassed about business' needs for new plant and equipment and ways of meeting them. By dealing with sources of funds it also takes me into the area where my associates are much better informed than I am. I am glad to defer to them.

But—on the subject of sources of funds — I have some amateur ideas which I hope to give an airing during the course of the discussion. One of them is that we need rather desperately a sort of $2 window in the security markets to give some competition to the $2 window at the race tracks. As a purely scientific pursuit, I have been looking into the increase of betting on the ponies. It's gone up by leaps and bounds over the past decade. At the same time the activity on the stock market has declined about as precipitately.

My friends in the investment banking business are inclined to resent my mentioning the two phenomena in the same breath. They insist the $2 on the nose is something quite different than an investment in American industry. Of course, they are right, too—up to a point—but there is enough in common between the two types of activity to suggest that we need some device to get the new rich to do at least a little of their betting on American industry. I suspect that the thing can be done, too.

I hope my colleagues who are masters of finance will not dismiss the suggestion as flippant. It really involves considerations of the utmost relevance to our subject.

Television Equip. Corp. Offers Public Stk. Issue

Television Equipment Corp., with headquarters at 238 William Street, New York, N. Y., manufacturers of television cameras and other television transmission equipment, is offering 300,000 shares of capital stock at $1 per share through Henry P. Rosenfeld Co., 37 Wall Street, New York.

The corporation is headed by John B. Milliken, President, who has been active in the television industry since he founded United States Television Manufacturing Corp. in 1939. Leonard Mautner, Vice-President, was until recently Transmitter Division Manager for Allen B. Du Mont Laboratories, and William Brown, Secretary, was formerly associated with RCA Laboratories, Industry Service Division.

The corporation's present program includes the production of a simplified and improved television camera at a considerably lower cost than those heretofore available. In addition to normal television studio use, the camera will have many commercial, military and educational applications. Some authorities have indicated that these fields will provide a greater market for television cameras and associated equipment than the rapidly expanding television broadcasting market.

Mr. Mautner pointed out that there is almost no phase of modern social and industrial life which will not find an application for this unique equipment. Among the more obvious uses are aseptic observations of surgery in hospitals and medical schools, monitoring of industrial operations where extreme hazards to operating personnel are encountered, such as testing of rocket motors, atomic reactors and in underwater exploration. Commercial applications would include advanced display and merchandising in department stores, and auditioning facilities for advertising agencies.

Pittsburgh Bond Club Sport Night Dinner

E. O. Dorbritz, Moore, Leonard & Lynch, President of the Bond Club of Pittsburgh, announces that the annual "Sports Night" dinner of the Club will be held on Friday evening, Feb. 11, 1949, at the Pittsburgh Athletic Association. The speakers will include coaches and athletic directors of the local universities, representatives of the Pirates Baseball Club, sports editors of the Pittsburgh newspapers and others active in the field of sports. Bob Prince will be master of ceremonies. The Bond Club's "Sports Night" is considered one of the outstanding events of the winter season and has always attracted a large attendance. The Committee in charge of the affair consists of: W. Stanley Dodworth (Buckley Brothers), Chairman; Arthur F. Humphrey (First Boston Corp.), Frank H. Kirk (Hemphill, Noyes & Co.), St. Clair Cooper, Jr. (Moore, Leonard & Lynch), and Louis A. Hauptfleisch.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Failure of market to advance on last week's move throws suspicion on immediate outlook.

Last week the Steel news made me think it would be the beginning of a new up move. Had I waited an extra day I might have written something different. Perhaps I wouldn't have been pessimistic, but I doubt if I'd have been optimistic. It's this lack of foresight that makes the market what it is.

* * *

There's an old market axiom to the effect that markets which won't go up on good news, will go down on bad. I'm not applying this in the present case. I'm just commenting on it. The reason I limit this to a comment is the possibility that the Steel news—the split and the extra—wasn't good news at all. Last week I wrote here that a stock split may sometimes signal the beginning of a major distribution. If this is the case at present, the news on Steel changes its complexion entirely. Carrying it still further, if the news was bad, then the action of the market after the news must be considered in an altogether different light.

* * *

This takes us back to the above-mentioned axiom about markets which don't perform in accordance with the news. If the opposite view is taken that this is bad and the market refuses to act in conformity with it, the assumption is that underlying strength is greater than indicated.

* * *

So now you have two thoughts to shuttle back and forth, and from where I sit, it doesn't seem likely you'll be able to make anything out of either one.

* * *

On a broad picture the trend is nothing to get excited about. Technically there are a couple of tops that don't look good. And while I'm in this technical vein I might also point out that while the Dow theory isn't shouting any warnings, it might be pointed out that the rails are less than a point away above their lows made right after the election. In order for the industrials to signal full blown Dow interpretation of a bear market, they'd have to go down about seven points.

* * *

Summing it all up it means that there is little likelihood of anything happening in the immediate future to give either the bears or the bulls anything to shout about.

* * *

You still hold United Carbon 36-37, stop at 34; U. S. & Foreign 21-22, stop at 19, and Cooper Bessemer came in between 27-28, stop at 25. So long as these hold above their stops, maintain your positions. If they break, get out.

More next Thursday.

—Walter Whyte

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

Jas. J. McNulty Forms Own Inv. Co. in Chicago

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—James J. McNulty and Company has been formed with offices at 135 South La Salle Street to engage in the securities business. Officers are James J. McNulty, member of the New York Stock Exchange, President and Treasurer, and William B. McNulty, Vice-President and Secretary. Both were formerly with Ames, Emerich & Co., Inc.

With Francis I. du Pont

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Leslie E. Bookout has been added to the staff of Francis I. du Pont & Co., 200 South La Salle Street. He was previously with Blyth & Co., Inc.

With Walston, Hoffman Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—William E. Drew has become connected with Walston, Hoffman & Goodwin, 265 Montgomery Street, members of the New York and San Francisco Stock Exchanges. He was previously with Bailey, Selland & Davidson.

Frank D. Newman Adds

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—Alex B. Cameron has been added to the staff of Frank D. Newman & Co., Ingraham Building.

With Oscar E. Dooly

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA. — Carlton M. Baumgardner, Jr. has become affiliated with Oscar E. Dooly, Ingraham Building. He was previously with Merrill Lynch, Pierce, Fenner & Beane.

Lucius H. Miller Dead

Lucius Hopkins Miller, associated with E. H. Rollins & Sons, Inc., New York City, since 1923, died suddenly at his home of heart disease at the age of 72.

Threat of Economic Concentration to Free Economy

(Continued from page 13)

is again the hope of the proletarian dictatorship. We are expected to succumb suddenly to our own capitalistic system. And we cannot afford to close our eyes to the dangerous symptoms now apparent. Weakness from within is the real economic cancer which attacks and destroys great nations. As President Truman said in his inaugural address, "If we are to be successful . . . we must keep ourselves strong."

Concentration Trend

The Bureau of Internal Revenue reported the following business statistics for the year 1935:

"One-tenth of 1% of all reporting corporations owned 52% of the assets of all of them 5% owned 87% of the assets of all; one-tenth of 1% earned 50% of the net income of all; and of all the manufacturing corporations reporting, less than 4% of them earned 84% of the net profits of all."

And in case it should be said that these statistics are meaningless because the stock in these corporations is widely held by the public, let us consider one additional fact: In 1929, 78% of the dividends reported by individuals went to three-tenths of 1% of our population.

What has been the trend in this past decade? Let us see.

I am informed that as of 1945, ten years later, about one-tenth of 1% of the reporting corporations still owned about 52% of the assets of all, and that 8% owned 91% of the assets of all.

There is the picture of concentration in this country. I have been trying to get comparable figures for Italy and Germany during the rise of the Fascist and Nazi dictatorships but they do not seem to be available. I doubt if they could be much more startling.

How many times do we have to witness this spectacle in other countries before we see the possibility of the pattern forming within our own gate? The first symptom is unhealthy economic concentration. Then comes a seething restlessness, a fertile field for Communist doctrine.

A most effective way to fight Communism is by removing the injustices upon which Communism feeds.

Revolution can not be manufactured alone by a Politboro in Moscow. Revolution springs from an ever present sense of economic and social injustice—an absence of hope, of faith, of christian living.

When these conditions of unrest are present, the philosophy of the alternative makes little difference. Infectious insecurity will find expression in whatever demagogic doctrine is handiest—be it Communism or something else.

A people's aspirations toward justice cannot be curbed either by denying the existence of injustices nor by denouncing those who offer an alternative.

A report of the World Council of Churches, meeting recently in Amsterdam, pointed out the two chief factors which contribute to the crisis of our age.

One of these is the vast concentration of power — which under capitalism is mainly economic, and under Communism is both economic and political.

"For such conditions", said the Report, "social evil is manifest on the largest possible scale."

Justice is immobilized by the inertia of men. It then lacks the ability to act as it should. Under communism there is no opportunity for the people — they are but chattels of the State. Under the American system our strength rests largely in the fact that our government is established for the benefit of the people—the individual. We believe in human dignity. Monopoly handcuffs the individual and enchains democracy. It is a tool of totalitarianism.

We must have vision—hindsight combined with foresight!

Are the lessons of history always to be learned only by the third and fourth generation? Can't we, within our own generation, interpret some facts of yesterday in shaping the policies of today?

Some people can. Some saw the inevitable approach of World War II, and as we read certain books today and see there the clear warning they gave us we cannot refrain from wondering at the world's blindness. We also have similar warning concerning our domestic situation.

The members of the National Temporary Economic Committee, in making their final report in March 1941, said: "It is quite conceivable that the democracies might attain a military victory over the aggressors only to find themselves under the domination of economic authority far more concentrated and influential than that which existed prior to the war."

And again that Committee warned us that there was "no hope of preventing the increase of evils directly attributable to monopoly . . . unless our efforts are redoubled to cope with the gigantic aggregations of capital which have become so dominant in our economic life." Surely no warning could be more clear.

This is an internal danger more ominous than another nation's strength. President Truman pointed it out in his message to Congress on Jan. 6, 1947. He said:

"During the war, this long-standing tendency toward economic concentration was accelerated. As a consequence, we now find that to a greater extent than ever before, whole industries are dominated by one or a few large organizations which can restrict production in the interest of higher profits and thus reduce employment and purchasing power."

This constant trend toward concentration is the most dangerous enemy we have to fear. It is the greatest threat to our system of free enterprise. In the Antitrust Division we have been making every effort to combat this threat through our Merger Unit, which prospectively reviews proposed mergers. Members of the Bar may come down and talk with us when they have merger problems which they feel might result in violations of the antitrust laws. I am proud to say that through the cooperation we have received from the Bar, our Merger Unit has met with some success. Continued cooperation and understanding of the merger problem by the Bar will be of considerable aid in the greater success of our merger program.

Small Businesses Gobbled Up

The statistics show that small businesses, one after another, have been gobbled up by the big corporations faster than ever during the past few years. That is exactly what happened in Germany, in Italy and in Japan. When economic power becomes too centralized there are a few roads ahead except those which lead to loss of liberties.

The people of this country have a right to expect that a sincere and vigorous effort will be made to reverse the trend toward concentration of economic power in favor of a trend toward free and unrestricted economic opportunity.

Unless that can be done, I feel it my duty to warn all who will listen that our way of life is in grave and increasing danger. Just 20 years ago we stood by helplessly and watched what Hatton Sumners called "These voluntary guides who professed to know the way" as they lead us into the most disastrous depression the world has ever known. It was serious then, but a repetition now might be calamitous.

The strength of the world today depends to a major extent on the strength of the United States.

And the strength of the United States depends on the maintenance of a vigorous economy free from the domination either of private greed or political dictatorship, but resting firmly on equality of opportunity in a competitive market.

This is our goal.

In the achievement of this goal lies the challenge to business!

In the enforcement of this goal lies the obligation of Government!

And in the successful fulfillment of this task lies the need for the efficient cooperation of the lawyers of America.

With the encouragement and the assistance of American business men and American lawyers that struggle for a free economy will be won.

Italian Republic Bond Offer Still Open

The representatives of the Italian Republic have filed with the Securities and Exchange Commission a supplement dated Jan. 21, 1949, to the prospectus dated Dec. 23, 1947, concerning the bond adjustment offer. The Foreign Bondholders Protective Council, Inc., 90 Broad Street, New York, has received so many inquiries in regard to whether or not the Italian offer remained open that it deemed it advisable to call public attention to the fact that the offer continues to be open and will continue until termination by 90-day public notice as provided in the prospectus. The representatives of the Republic informed the Council that Italy does not intend to close the offer for the present and that adequate notice will be given before any closure.

The supplemental prospectus referred to above reports that as of Jan. 15, 1949, acceptances of the offer had resulted in the issuance of 72.3% of the new bonds of the Italian Republic issuable under the offer, and 69.7% of the new bonds of the Credit Consortium for Public Works issuable under the offer, and 53.4% of the new bonds of the Public Utility Credit Institute issuable under the offer. The Council continues its recommendation of acceptance.

FIC Banks Place Debs.

A successful offering of an issue of debentures of the Federal Intermediate Credit Banks was made Jan. 18 by Charles R. Dunn, New York, fiscal agent for the banks. The financing consisted of $62,000,000 1.55% consolidated debentures dated Feb. 1, 1949, due Nov. 1, 1949. The issue was placed at par. Of the proceeds $54,570,000 were used to retire a like amount of debentures maturing Feb. 1 and $7,430,000 is "new money." As of the close of business Feb. 1, 1949, the total amount of debentures outstanding was $474,665,000.

Harlow With C. S. Hall Co.

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, OHIO — Roy C. Harlow has become associated with Clair S. Hall & Co., Union Trust Building. Mr. Harlow was previously with L. M. Greany & Co. In the past he was with Saunders, Stiver & Co.

With Conrad Bruce Co.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, OREG. —Richard E. Watson has been added to the staff of Conrad, Bruce & Co., 813 Southwest Alder Street.

The Railroads—A Case of Simple Arithmetic

(Continued from page 12)

increase your railroad freight bills. While these subsidized competitors of the raliroads may "save" you a little money from one pocket, it is quite likely that in taxes and in railroad freight bills, they are costing you more money from your other pocket than you "save" from the first pocket. Nobody really gets anything worthwhile for nothing, and the cheapest transportation, in the long run, is the kind that can stand and does stand on its own feet.

The second principal reason why the railroads have been receiving only a small fraction of the financial nourishment they should be deriving from this period of prosperity is the tortuous and time-consuming process through which we must go before we can advance our prices.

Effect of Delayed Freight Rate Increases

As a general thing, when your expenses increase, you reprice your product. But when our expenses increase, and the need for repricing our product is more than obvious, we have only reached the starting line. We must expend much time and effort preparing for public hearings at which we almost automatically are opposed by numerous industries and by some governmental agencies. These interests frequently contend that, while the railroads may be entitled to higher rates to meet higher costs, those higher rates should not be imposed on the particular commodities in which they are interested.

Eventually we obtain a measure of relief, but far too frequently, it comes only after our costs have increased to the point that still another application is necessary. As a result, the railroads in this postwar period have habitually been at the end of the procession in their efforts to adjust selling prices to costs.

If we have gained little else during this postwar period, we have gained some experience. As Henry Adams said, "All experience is an arch, to build upon." Building upon that experience, it is becoming apparent that serious consideration should be given to the desirability of permitting the railroads to adjust their prices to conform with their costs when they find the need is obvious. The traditional elaborate hearings, and the subsequent deliberations and final decisions on the precise nature and degree of the adjustments, could be the second process instead of the first one — and without serious damage to anyone.

We are anxious to keep our rates as low as possible, consistent with a fair return. Railroad rates were no higher at the end of the war, and in many instances were lower, than when the war began. Subsequent increases have come after, and not before, the increases in the prices of other things. And even if we did not believe in fair rates—fair to the buyer, fair to the seller—we could not disregard the substantial competitive factors in the picture today.

Competitive Factors

These competitive factors have grown to very sizable importance in the last two decades. They were virtually non-existent when the present system of rate regulation was established. Nor could the rapidity and extent of today's cost increases be foreseen at that time. Permitting the railroads to price their product, and then go through the hearings and subsequently make whatever modifications as are ruled necessary, would give us some of the business flexibility which the great majority of industries rightly enjoy, without decreasing in any degree our recognized responsibilities as public carriers.

This might, of course, cost your businesses slightly more money in the short run. But at the same time, it actually would save you money—and probably considerable money—in the long run. An inadequate rate level means inadequate earnings. Inadequate earnings mean inadequate modernization. Inadequate modernization can mean only a high cost of performing transportation, and an inferior quality of service as well. I know that you want neither of these.

The only true hope for relatively lower rates is in a dynamic, progressive railroad industry. Without minimizing the many things already accomplished, there must be provided and utilized the best in the way of plant, equipment and facilities, and the opportunity for constant improvement must be fully realized.

In the interest of greater efficiency and long-term lower-cost transportation, the railroads have been making, and should continue to make, large expenditures for modernization and rehabilitation of their physical properties. On the New York Central—where we have undertaken the largest improvement program of any railroad—our expenditures and commitments for improvements total more than $345 million for our system and affiliated companies. This includes more than $293 million for new motive power and rolling stock received or ordered since the start of 1945, and the remainder for improvements to roadway, structures and equipment in the same four-year period.

Such modernization on our nation's railroads have been made possible only by the substantial financial reserves which the railroads built up during the war years—after 10 years of depression earnings and expenditures. These reserves, consisting of total cash and temporary cash investment, declined by $1.2 billion from the end of the war to the end of September, 1948, the latest month for which figures are available.

This serious working capital decline of well above $1 million a day, over a three-year period, is indisputable proof that the railroads' rate of return must be made much greater to permit continuance of their much-needed modernization programs. These programs, generally speaking, have only been well started. They must be continued, for they are essential to efficient transportation, to truly low-cost transportation. And they are essential to the nation, whether in peace or in war. The iron horse must be kept healthy and well nourished to continue doing the job you expect it to do.

Improvements Mean Low Cost Transportation

Showing how essential improvements are to the cause of truly low cost transportation, it is a fact that increased investment in the railroads, over the years, has reduced the cost of producing transportation far more than the charges upon the additional capital invested. From 1911 through 1947, Class I railroads increased their output of units of freight service by 162%, while their investment increased by only 92%. In other words, the increase in service output was nearly double the increase in investments — all of which is reflected in the relatively low rates you pay today.

In the same way, the railroad investments of today, and the savings they make possible, determine the rates of tomorrow. Thus industry's own long-rang interest would best be served if there were a deafening abatement of the automatic cries of protest which too often arise from some segments of industry and government when the railroads find it necessary to adjust their prices to meet their costs. The "automatic no" can be a pernicious habit. For despite the necessary increases in freight rates, their total climb since 1939 has been only one-third as much as the increases in prices generally. As a result, payments for railroad transportation are lower in relation to the values of the commodities transported than at any time since such figures first were compiled.

Progress is possible only through improvement, and for improvement, adequate earnings are essential. I have faith that self-enlightened industry will, more and more, see and act on the necessity of keeping the railroads strong and useful—in industry's own self-interest, and in the interest of a greater and more secure America. Only by taking a far-sighted view can we fully carry out our mission to look at the things which are "important" as well as the things which are "urgent." And, keeping in mind that "in today already walks tomorrow," let us, in conclusion, heed well these, immortal words of Rudyard Kipling:

"We have forty million reasons for failure, but not a single excuse."

Why Double Taxation?

(Continued from page 11)

gears of the economic machine by which we all live.

A Crime Against Industrial GI's

The terrible situation in which we find ourselves with respect to double taxation and the assault of the Investors League upon it is that it is a crime against the industrial GI's. It is so plainly and palpably unfair there should be no problem about getting it corrected. The Investors League can do this job. It is cut out and patterned for that sort of an accomplishment and the people in this room are the people who especially can help us do it. These people are largely either trustees for investors or important investors themselves who have enormous followings for investors. It is up to you to help us to organize and mobilize this group of trod-upon.

Government Better Off Without the Tax

The fact is that if this penal law is changed that the government would be so much better off by millions upon millions of dollars after the first year or two when the funds which rightfully belong to investors could be put back into the enterprise system. It would do more than that. It would dissipate some of the gloom and fears which are the only things that are keeping us back from going to heights beyond our wildest dreams. The whole system of our economy and our people is shot through with one fear and another because the "takers away" are in control and there is no Lochinvar—no leader to free the masses of our people from this dastardly injustice.

With Morfeld, Moss

(Special to The Financial Chronicle)

ST. LOUIS, MO.—Edward H. Westen is now connected with Morfeld, Moss and Hartnett, 721 Olive Street.

Observations

(Continued from page 5)

alarmed over the government's recent pushing of its steel-nationalizing legislation. But, now again, even in the case of steel, Mr. Crowther manages to find consolation in the fact that the steel companies' directorates are to be left intact, and that the final enactment may possibly be blocked by a change of government in 1950.

Socialist Errors to Be Laundered Out?

This kind of fuzzy rationalization is highlighted in the concluding thought of Mr. Crowther's address:

"We think we know about as much about the practice of democracy as you do. Indeed, some people think you got the idea from us in the first place. *I ask you to believe that what is proved to be error in the present socialist experiments will be washed away,* and that what is good will add one more stone to that great edifice of human achievement that we call the society of free men."

What absolute nonsense is this credo (all too-common) that the democratic process will wash away "what is proved to be in error"! For who is going to throw away handouts to his self-interest? Can it be imagined in a real world that the Britisher is going to vote AGAINST a National Health Act which gives him free-of-charge eye examinations and wigs, or to throw out a bureaucracy which confers on him hospital and medical care gratis? Similarly in America, what farmer is going to wash out subsidies for his products, or what home-renter is objective enough to vote to remove the ceiling on his rent payments?

Simply stated though they may be, it is these questions which give the direct denial to the pleasant possibility of washing away the instruments of the Socialist State.

And stripped of all temporizing sophistry, it is undeniable that enrichment of portions of the population throug redistribution is predicated on decisive political direction as to who gets what—an entirely different process than the Truman or British fantacy of noncontrolling plans.

Tax Increases Both Harmful And Unnecessary

(Continued from page 7)

sumer, would almost surely set the stage for a slump in business.

(6) Excess profits taxation has some obvious disadvantages even in wartime. It has no place at all in a peacetime tax program for such a tax falls heaviest on the growth industries. If the nation is to be strong as it must be in an era of "cold war," when the prospects for durable peace are not as propitious as we hoped they would be, then it is our growth industries which should be encouraged to expand so that they can enable us to maintain the lead we now have in industrial technology and in developed industrial resources.

(7) The undistributed earnings tax is plainly an abomination, for it strikes at the heart of the process of plowing earnings back into business, without which industrial expansion could not possibly be held at a high level. The less heard about this sort of tax in the future, the better off the nation will be.

(8) We should look to reduced expenditures rather than increased tax rates for the funds with which to reduce our now colossal government debt. Wasteful government expenditures and less than maximum government efficiency represent an unnecessary diversion of precious resources at a time when we need every ounce of our economic strength to build our defenses and lend material support to our friends. The recommendation of the Hoover Commission should be put into effect immediately as a blueprint for a reorganization of our government, and there is good reason to believe that if this were to be done we could reduce government expenditures enough to make tax increases unnecessary except in time of great emergency.

People Should Be Reassured

(9) It is time for someone in authority to reassure our people and our business concerns that they have something to look forward to other than a steady succession of tax increases over the years ahead. That should not be too difficult, for unless devastating anti-business, anti-saving and anti-investment taxation is to be used deliberately to force the nation into state socialization or to hold up its growth, it should be possible, when the threat of war is reduced and the world has less need for special economic assistance from us, to reduce government expenditures by from $10 to $15 billion per annum. If that were done it would leave ample room for tax reduction and debt redemption and a favorable environment for a healthy expansion in the economy.

It is in considerations such as those which I have enumerated that we are likely to find sound guideposts for a realistic tax program. We have in the technological advances of the past few years the know-how and the resources to provide the basis for an expanding economy and a steadily rising standard of living for our people for many, many years ahead. And, we have the means for insuring that we shall remain the center of strength and power for the free nations of the world in what promises to be a turbulent and dangerous time. The point of my remarks is that we can stop the technological revolution dead in its tracks by enterprise-inhibiting taxation such as has been recently proposed. That we will actually do so I cannot bring myself to believe, for growth and expansion and progress are so much a part of the economic tradition and the economic lives of the American people that it would be incredible if they were to permit the application of tax policies which would hamstring the most dynamic and productive economy the world has ever seen.

Joins Louis G. Rogers

(Special to The Financial Chronicle)

CHARLOTTE, N. C.—William C. Lyerly, Jr., has joined the staff of Louis G. Rogers & Co., Johnston Building.

With Reynolds & Co.

(Special to The Financial Chronicle)

WINSTON-SALEM, N. C.—Dorothy M. McKaughan is with Reynolds & Co., Reynolds Building. Miss McKaughan was formerly with Harris, Upham & Co.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Feb. 6	100.9	101.1	100.0	94.0
Equivalent to—					
Steel ingots and castings (net tons)	Feb. 6	1,860,100	1,863,800	1,802,500	1,694,300
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Jan. 22	5,418,950	5,428,300	5,640,750	5,336,287
Crude runs to stills—daily average (bbls.)	Jan. 22	†5,556,000	5,721,000	5,784,000	5,446,000
Gasoline output (bbls.)	Jan. 22	17,961,000	18,432,000	18,175,000	16,747,000
Kerosene output (bbls.)	Jan. 22	2,354,000	2,762,000	2,542,000	2,403,000
Gas oil and distillate fuel oil output (bbls.)	Jan. 22	7,944,000	7,749,000	7,776,000	7,718,000
Residual fuel oil output (bbls.)	Jan. 22	8,744,000	9,187,000	9,121,000	9,182,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Jan. 22	111,587,000	109,219,000	100,286,000	100,586,000
Kerosene (bbls.) at	Jan. 22	22,125,000	22,593,000	24,306,000	11,997,000
Gas oil and distillate fuel oil (bbls.) at	Jan. 22	68,746,000	70,491,000	79,271,000	42,402,000
Residual fuel oil (bbls.) at	Jan. 22	85,075,000	85,609,000	56,181,000	51,094,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Jan. 22	709,585	733,272	609,239	771,139
Revenue freight received from connections (number of cars)	Jan. 22	631,290	640,012	590,534	668,373
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Jan. 27	$212,157,000	$96,601,000	$78,100,000	$99,683,000
Private construction	Jan. 27	64,829,000	60,115,000	31,688,000	46,614,000
Public construction	Jan. 27	147,328,000	36,486,000	46,412,000	53,069,000
State and municipal	Jan. 27	71,797,000	30,954,000	35,451,000	43,115,000
Federal	Jan. 27	75,531,000	5,532,000	10,961,000	9,954,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Jan. 22	11,415,000	*11,775,000	9,536,000	12,200,000
Pennsylvania anthracite (tons)	Jan. 22	860,000	1,050,000	967,000	1,180,000
Beehive coke (tons)	Jan. 22	158,100	*156,300	139,700	130,600
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Jan. 22	230	*244	473	226
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Jan. 29	5,810,035	5,768,934	5,562,232	5,429,202
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Jan. 27	136	142	128	91
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Jan. 25	3.75628c	3.75628c	3.75628c	3.22566c
Pig iron (per gross ton)	Jan. 25	$46.82	$46.87	$46.91	$40.17
Scrap steel (per gross ton)	Jan. 25	$40.58	$40.92	$43.00	$40.83
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Jan. 26	23.200c	23.200c	23.200c	21.200c
Export refinery at	Jan. 26	23.425c	23.425c	23.425c	21.550c
Straits tin (New York) at	Jan. 26	103.000c	103.000c	103.000c	94.000c
Lead (New York) at	Jan. 26	21.500c	21.500c	21.500c	15.000c
Lead (St. Louis) at	Jan. 26	21.300c	21.300c	21.300c	14.800c
Zinc (East St. Louis) at	Jan. 26	17.500c	17.500c	17.500c	12.000c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Feb. 1	101.31	101.29	100.99	100.69
Average corporate	Feb. 1	113.12	113.12	112.00	110.70
Aaa	Feb. 1	118.80	119.00	118.00	115.63
Aa	Feb. 1	117.00	117.00	116.22	114.27
A	Feb. 1	112.19	112.19	110.70	110.15
Baa	Feb. 1	105.17	105.34	104.14	103.64
Railroad Group	Feb. 1	108.88	109.06	107.09	105.34
Public Utilities Group	Feb. 1	113.50	113.31	112.75	112.37
Industrials Group	Feb. 1	117.20	117.20	116.61	114.85
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Feb. 1	2.41	2.41	2.43	2.45
Average corporate	Feb. 1	3.00	3.00	3.06	3.13
Aaa	Feb. 1	2.71	2.70	2.75	2.87
Aa	Feb. 1	2.80	2.80	2.84	2.94
A	Feb. 1	3.05	3.05	3.13	3.16
Baa	Feb. 1	3.44	3.43	3.50	3.53
Railroad Group	Feb. 1	3.23	3.22	3.33	3.43
Public Utilities Group	Feb. 1	2.98	2.99	3.02	3.04
Industrials Group	Feb. 1	2.79	2.79	2.82	2.91
MOODY'S COMMODITY INDEX	Feb. 1	384.8	385.8	394.7	443.8
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Jan. 29	219.7	222.2	227.3	238.8
Fats and oils	Jan. 29	171.5	169.2	190.6	278.9
Farm products	Jan. 29	237.4	236.2	244.9	271.5
Cotton	Jan. 29	312.5	313.4	305.5	331.0
Grains	Jan. 29	202.5	206.6	210.8	310.2
Livestock	Jan. 29	237.2	233.9	248.4	259.1
Fuels	Jan. 29	240.1	240.1	239.6	228.0
Miscellaneous commodities	Jan. 29	170.9	171.7	172.1	181.4
Textiles	Jan. 29	195.7	196.0	195.2	219.1
Metals	Jan. 29	190.4	190.4	190.6	162.1
Building materials	Jan. 29	217.9	227.1	225.8	233.4
Chemicals and drugs	Jan. 29	146.3	147.8	149.0	155.1
Fertilizer materials	Jan. 29	143.4	143.4	142.8	138.0
Fertilizers	Jan. 29	151.3	151.3	150.8	142.9
Farm machinery	Jan. 29	155.6	155.2	155.2	136.7
All groups combined	Jan. 29	213.1	214.3	217.1	225.9
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Jan. 22	182,892	172,225	139,128	188,717
Production (tons)	Jan. 22	191,306	194,092	174,319	188,000
Percentage of activity	Jan. 22	92	93	87	104
Unfilled orders (tons) at	Jan. 22	327,700	337,149	285,601	423,160
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	Jan. 28	141.5	*141.7	142.0	150.0
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Jan. 25	158.8	159.3	162.2	164.5
Farm products	Jan. 25	167.9	170.1	179.2	196.3
Foods	Jan. 25	159.2	161.9	169.6	176.2
All commodities other than farm and foods	Jan. 25	153.6	153.0	152.5	148.4
Textile products	Jan. 25	143.6	144.2	145.1	147.8
Fuel and lighting materials	Jan. 25	138.0	137.1	137.5	130.7
Metals and metal products	Jan. 25	177.9	175.3	173.7	154.6
Building materials	Jan. 25	200.8	201.8	200.1	191.6
All other	Jan. 25	133.5	133.6	133.0	139.9
Special indexes—					
Grains	Jan. 25	164.0	166.6	170.9	252.7
Livestock	Jan. 25	206.5	209.0	221.4	248.4
Meats	Jan. 25	218.3	221.0	228.7	243.2
Hides and skins	Jan. 25	200.4	202.9	192.5	240.1

*Revised figure. †Includes 372,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
AMERICAN GAS ASSOCIATION—For month of December:			
Total gas (M therms)	3,176,126	2,746,606	2,987,107
Natural gas sales (M therms)	2,844,921	2,463,358	2,608,912
Manufactured gas sales (M therms)	214,457	191,544	233,368
Mixed gas sales (M therms)	116,748	91,704	144,827
BUILDING CONSTRUCTION PERMIT VALUATION IN URBAN AREAS OF THE U. S. —U. S. Dept. OF LABOR—Month of November (three 000's omitted):			
All building construction	$472,679	*$584,813	$502,921
New residential	238,955	*274,548	269,567
New nonresidential	165,142	*230,118	167,079
Additions, alterations, etc.	68,582	*80,147	66,275
BUILDING PERMIT VALUATION — DUN & BRADSTREET, INC.—215 CITIES—Month of December:			
New England	$14,063,380	$17,918,084	$16,943,386
Middle Atlantic	77,846,990	72,082,825	85,044,819
South Atlantic	21,478,565	25,962,852	28,408,783
East Central	48,167,799	46,548,545	56,169,736
South Central	33,366,499	26,698,603	36,996,411
West Central	14,371,187	16,039,423	16,528,716
Mountain	6,436,683	14,430,964	5,308,082
Pacific	59,809,331	53,293,276	62,546,025
Total United States	$275,540,434	$282,974,572	$307,945,958
New York City	46,214,077	49,415,458	60,794,688
Outside of New York City	229,326,357	233,559,114	247,151,270
BUSINESS INCORPORATONS, NEW IN THE UNITED STATES—DUN & BRADSTREET, INC.—Month of December	7,421	6,413	10,126
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK—			
As of December 31 (in thousands)	$269,000	$287,000	$287,000
COTTON AND LINTERS — DEPT. OF COMMERCE — RUNNING BALES—			
Lint—Consumed month of December	680,670	685,166	754,847
In consuming establishment as of Dec. 31	1,649,284	1,653,888	2,162,114
In public storage as of Dec. 31	8,811,476	8,434,988	5,499,200
Linters—Consumed month of December	113,854	116,968	101,421
In consuming establishments as of Dec. 31	348,667	292,871	214,056
In public storage as of Dec. 31	69,091	54,425	70,426
Cotton spindles active as of Dec. 31	20,776,000	21,231,000	21,420,000
COTTON GINNING (DEPT. OF COMMERCE):			
Running bales (exclusive of linters) prior to Jan. 16	14,141,739	------	11,384,700
DEPARTMENT STORE SALES—SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y. — 1935 - 39 AVERAGE=100—Month of December:			
Sales (average monthly), unadjusted	422	292	416
Sales (average daily), unadjusted	414	298	408
Sales (average daily), seasonally adjusted	245	229	*242
Stocks, unadjusted as of Dec. 31	215	278	211
Stocks seasonally adjusted as of Dec. 31	236	242	232
EDISON ELECTRIC INSTITUTE:			
Kilowatt-hour sales to ultimate consumers—month of November (000's omitted)	20,677,615	20,510,530	18,726,158
Revenue from ultimate customers—month of November	$375,038,200	$367,712,000	$18,726,158
Number of ultimate customers at Nov. 30	40,557,945	40,389,677	38,248,940
EMPLOYMENT AND PAYROLLS—U. S. DEPT. OF LABOR—Month of November:			
All manufacturing	13,234,000	*13,378,000	13,176,000
Durable goods	6,809,000	*6,824,000	6,746,000
Nondurable goods	6,425,000	6,554,000	6,430,000
Employment indexes—			
All manufacturing	161.5	*163.3	160.8
Durable goods	188.6	*189.0	186.8
Nondurable goods	140.3	143.1	140.4
Payroll indexes—			
All manufacturing	378.1	*382.1	353.4
Durable goods	428.3	*434.1	395.0
Nondurable goods	329.1	331.2	312.8
Estimated number of employees in manufacturing industries—			
All manufacturing	16,449,000	*16,598,000	16,256,000
Durable goods	8,301,000	*8,319,000	8,194,000
Nondurable goods	8,148,000	*8,279,000	8,062,000
FACTORY EARNINGS AND HOURS—WEEKLY AVERAGE ESTIMATE—U. S. DEPT. OF LABOR — Month of December:			
Earnings—			
All manufacturing	$55.01	*$54.47	$52.74
Durable goods	59.32	*58.53	56.52
Nondurable goods	50.42	*50.17	48.78
Hours—			
All manufacturing	39.9	*39.7	41.2
Durable goods	40.7	*40.3	41.7
Nondurable goods	39.1	*39.1	40.8
Hourly earnings—			
All manufacturing	$1.378	*$1.371	$1.279
Durable goods	1.459	1.452	1.355
Nondurable goods	1.288	*1.282	1.196
LIFE INSURANCE PURCHASES — INSTITUTE OF LIFE INSURANCE — Month of December (000's omitted)—			
Ordinary	$1,317,968	------	$1,478,120
Industrial	300,885	------	287,203
Group	623,554	------	435,592
Total	$2,242,407	------	$2,200,915
NEW YORK STOCK EXCHANGE—As of Dec. 31 (000's omitted):			
Member firms carrying margin accounts—			
Total of customers' net debit balances	$551,440	$551,101	$577,877
Credit extended to customers	52,218	49,183	60,997
Cash on hand and in banks in U. S.	351,963	361,412	400,702
Total of customers' free credit balances	587,310	563,441	613,121
Market value of listed shares	67,048,278	65,466,288	68,312,500
Market value of listed bonds	131,306,126	131,233,680	136,206,807
Stock price index, 12-31-24=100	73.0	71.4	76.8
Member borrowings on U. S. Govt. issues	$170,896	$118,085	$57,276
Member borrowings on other collateral	250,591	228,614	243,585
NON-FERROUS CASTINGS (DEPT. OF COMMERCE)—Shipments, month of November:			
Aluminum (thousands of pounds)	34,550	35,542	34,683
Copper (thousands of pounds)	86,497	91,311	81,803
Magnesium (thousands of pounds)	728	708	602
Zinc (thousands of pounds)	35,931	38,407	33,617
Lead die (thousands of pounds)	1,152	1,366	1,205

*Revised figure.

Business and the Stock Market in 1949

(Continued from page 2)

in progress during the past two years may result in the outbreak of open hostilities before the end of 1949. We were confident during 1948 that the Berlin Blocade would not lead to an immediate war, in spite of the war scares which were so widely publicized. This conclusion, as stated in our periodic reports to clients, was based partly on information obtained from individuals who were able to get behind the propaganda "curtains," and partly on our own analysis of the logic of the situation. Very frankly, we do not feel as confident that a real showdown with Russia can be avoided during the Fall and Winter of 1949 as we were that there would be no military clash during 1948. For one thing, Russia will have materially improved her defensive position by late 1949, as more armament plants are placed in production in the Urals. She will probably also be in a better position to prevent our using China as a bombing and military base. In the third place, the progress being made in rearming Europe suggests that Russia will have progressively less chance of overrunning Europe in any sudden attack by 1950 or 1951 than she is conceded to have at the present time. In brief, while we hope that we can avoid war with Russia for at least another five or ten years, we do want to make the point that logic calls for less complacency about the outlook for hostilities before the end of 1949 than was justified during 1948. Any development in the direction of either a gradual reduction in tension, or leading to a showdown with Russia, will have to be watched carefully as the year progresses, and particularly in the Summer and Fall months.

Any major change in the status quo as regards our relationship with Russia would, of course, have a material effect on our economy. At the moment, however, it appears to be a reasonably safe assumption that the status quo will be maintained during **at least** the first half of 1949.

Looking ahead past the next eight to ten months, we believe that the prospects are for a relatively short but sharp cyclical adjustment in business similar to that experienced in 1937—1938. There is no danger of any real credit stringency (as was the case in 1919, and to a much greater extent in 1929), and the attitude of both the Administration and the Federal Reserve authorities indicates quite clearly that an easy money policy would be resumed within a few months of any substantial letdown in general business activity. Furthermore, a 10% to 15% decline in business activity would almost certainly result in a comparable decline in Federal revenues, and therefore an inflationary Federal deficit of at least $500 million to $600 million a month. (This is virtually inevitable, under current conditions, because of the magnitude of the Federal budget and the large proportion of Federal revenues which is based on corporate profits and individual incomes.)

The Outlook for Stock Prices

On the basis of the relationship of stock prices to earnings over the preceding 20 years, the Dow-Jones Industrial Average fell short of what might be considered minimum "normal" levels by about 20%. This is true even if we deduct from reported earnings an additional allowance for depreciation charges in order to bring them up to about double the prewar levels. The failure of the market to reflect the very substantial improvement in earnings during the past two years may be attributed primarily to the following factors:

(1) Frequently recurring, propaganda-inspired, fears of a collapse in business activity and in commodity prices similar to the declines witnessed within two years following the end of World War I.

(2) Continuation of the "cold war," and the publicity given by the Administration, before the elections, to the possible imminence of a shooting war.

(3) Re-election of a President in whom businessmen, generally speaking, have very little confidence.

(4) The very high level of taxes, particularly against incomes which normally provide funds for investments in equities.

(5) Restrictions as to the amount of money which can be borrowed on listed securities; and

(6) Realization that the profit margins of many companies are quite vulnerable, in view of the high level of "break-even" points.

Unfortunately, these factors will undoubtedly continue to exert an unfavorable influence on the level of stock prices during 1949. However, it does not follow that they are likely to prevent the market as a whole from extending its advance to above the highs touched by the Dow-Jones Industrial Average during 1948.

On the basis of the actual developments of the past two years, it appears quite obvious that the investing public has been overemphasizing the unfavorable factors as listed above. Partly for this reason, we believe investors are justified in continuing to place emphasis on equities rather than on fixed-income securities in their investment programs. However, we also believe that a shift in such emphasis will be in order by sometime within the next three or four months, particularly in the event of a near-term advance to above the highs of the past two years.

Our reasons for expecting an advance to above the 1947-1948 highs in the market as a whole, and for our belief that a cyclical peak in stock prices will be reached during 1949, can be summarized as follows:

Yields

Stocks are currently selling on a yield basis of more than twice that offered by investments in high-grade bonds. This is particularly significant, since dividend payments have been representing, on the average, only between 40% and 50% of earnings, as compared with a long-term average rate of disbursements of between 70% and 80% of earnings. In the past, the yields on stocks have been within 1% of the yields on high-grade bonds, at cyclical peaks.

The average yield on all of the common stocks listed on the New York Stock Exchange is now about 6.4%. The yield on the 30 stocks which make up the Dow-Jones Industrial Average is about 5.8%, while the return on high-grade bonds is 2.9%. On the basis of current and prospective dividends, the yield on the Dow-Jones Industrials, even at 210, would still be over 5%.

Dividend Ratio

The conservative ratio of dividend disbursements to earnings tends to increase the asset value and financial strength of corporations.

Some of the retained earnings have been necessary, of course, because of the increased working capital and plant expansion requirements at the higher price level. The fact remains, however, that the assets behind each share of stock have increased materially during recent years not only because of retained earnings, but also because of the appreciation in the value of both fixed and current assets.

Future Profits

In view of the many supporting elements in our economy (including Federal spending at the rate of more than $40 billion a year, a continued unsatisfied demand for the products of several of the highly cyclical industries, etc.), it seems reasonable to expect corporate earnings to hold at not far below last year's levels for at least the next six to nine months.

Allowing for an increase of about $2 billion in taxes on corporate incomes and a gradual narrowing of profit margins, earnings for the type of companies which are represented in the Dow-Jones Industrial Average will probably hold at within about 20% of the 1948 levels during **at least** the first half of 1949. This would mean earnings at the rate of about $17—$18 a share on a reported basis, or about $15 a share if an allowance is made for depreciation charges on approximately a replacement-cost basis.

At 180, the Dow-Jones Industrial Average is selling for the equivalent of only 12 times this minimum estimate of a $15 rate of adjusted earnings. This Average has failed to sell at a high of at least 14 times earnings during only five of the past twenty-three years. (It will be noted that we are leaving out of earnings the so-called "unreal" increment due to "inadequate" depreciation charges.)

Inflation Hedging

Common stocks represent one of the few hedges against inflation which are available to the American public. If world history over the past fifty to one hundred years is any guide, it is only a question of time before stock prices will more fully reflect the real change in the value of the dollar. (The failure of the public to recognize the nature of the change in the value of the monetary unit for so long a period is **not** unprecedented; however, it would be unprecedented if stock prices did not eventually reflect the new level of costs, and, therefore, the permanently higher level of dollar sales.)

Barring a substantial reduction in our national debt (which we do not expect), the increase in the supply of our money which stems largely from our colossal national debt, will permit a permanent doubling of fundamental costs (wages) and, therefore, will sustain a price level of at least 70% to 80% above prewar. . . . This means a higher level of corporate dollar sales. . . . New competition will be restricted unless profit margins, after taxes, justify additional investment in plant and equipment at these new price levels. . . . This in turn will mean a much higher **average** rate of corporate earnings, after taxes, than would have been the case if we did not have this permanent advance in costs and prices.

Timing

On the basis of our Timing Studies, the probabilities favoring an advance to above the highs of the past two years, by sometime in 1949, are just as strong as were the probabilities that the October, 1946 lows in the Dow-Jones Industrial Average would not be broken at any time in 1947 or 1948.

Specifically, we have had eight "bull" markets since 1900 which have started out with a broad base. Without exception, all of these bull markets reached new highs by sometime during the twenty-sixth and twenty-eighth month of the advance (from the beginning of the base), with the record since the enactment of the SEC being toward a moderate extension of the rise past the twenty-eighth month. . . . From the point of view of this record alone, we should look for new highs in the market by sometime during the next three months.

Summary and Recommendation

In spite of the continued presence of forces which have prevented the market from reaching prewar relationships to earnings during the past two years, an advance to above the 1948 high of 193.16 seems to be a minimum expectancy by sometime this year. The probabilities favor a rise to within 3% to 5% of the 1946 high of 212. The lows for at least the first nine months of the year should be somewhere between 170 and 175.

On the basis of our long-term Timing Studies, there is a real danger that a cyclical peak will be seen by March or early April, particularly if the market as a whole is well above the 1947—1948 highs by that time. These studies indicate that there is a possibility of a moderate extension of the advance past whatever highs are to be seen this Spring, or at least a recovery to approximately a "double top" by next Fall. (A high by March or April is called for by the consistent record of the duration of the advances following a broad base ever since 1900. The possibility of a moderate extension of any Spring rise, or of at least a double top by next Fall, stems from the experience of the stock market during the ninth year of every decade since the 1870's—as in 1879, 1889, 1899, 1909, 1919, 1929 and 1939. In each of these years, the highs were seen in September or later.)

In view of these conflicting factors, it will obviously be more necessary than ever to follow a policy of extreme selectivity in the management of investment portfolios during 1949.

From a longer-term point of view, the probabilities would seem to be quite strong that some type of cyclical readjustment will be underway before the end of the year. There is a chance that at least the latter stages of any readjustment in the market will again be brief and violent, as was the case in the second quarter of 1940, and during the last half of 1946. This type of market action appears to be the natural result of SEC regulations, and the tendency of speculators to follow the crowd.

Chess Match Between NYSE & Amsterdam

Last February, 1948, there was an international chess match between the New York Stock Exchange and the Amsterdam Stock Exchange, consisting of selected ten-man teams. The ten New York men played from the sixth floor of the New York Stock Exchange, 11 Wall Street, and the ten Amsterdam men from the floor of the Amsterdam Stock Exchange. Moves were made by RCA teletype. Amsterdam won 5½-4½. Due to difficulties in coding, the match was rather long drawn out and the results were not particularly conclusive. Due to improved transmission facilities, no such delays will again be encountered.

A return match has been scheduled for Saturday, March 5th, at 9 a.m. It is expected that either Mr. Schram, President of the New York Stock Exchange, or a leading officer of the Stock Exchange will make the first move for New York, and the President of the Amsterdam Stock Exchange for Amsterdam.

Try-outs for the American team will be conducted at the Manhattan Chess Club on Tuesday, February 15th, at 7 p.m. All partners or employees of New York Stock Exchange firms, or of the New York Stock Exchange, are eligible. The teams will be selected by Mr. I. Kashdan, International Grand Master, and Mr. Schuyler Jackson, former U. S. Amateur Champion. It is expected that our No. 1 and No. 2 boards will be played by Mr. Kashdan and Mr. Jackson respectively.

If this match proves a success, the chances greatly favor playing the London Stock Exchange.

Officials in New York supervising the American teams will be Mr. Nelson Hogenauer, of the Central Hanover Bank & Trust Company; Mr. John Fowler, Jr., of Dillon, Read & Co.; and Mr. M. Peckar, of the Banque Belge.

COMING EVENTS

In Investment Field

Feb. 10, 1949 (Chicago, Ill.)
Bond Club of Chicago 38th annual meeting at the Chicago Club.

Feb. 11, 1949 (Boston, Mass.)
Boston Securities Traders Association Annual Dinner at the Hotel Somerset.

Feb. 11, 1949 (Pittsburgh, Pa.)
Bond Club of Pittsburgh annual "Sport Night" Dinner at the Pittsburgh Athletic Association.

Feb. 12, 1949 (New York City)
Friday Night Bond Club Annual Dinner Dance at the Hotel Pennsylvania.

Feb. 14, 1949 (New York, N. Y.)
New York Curb Exchange Annual Election.

Feb. 15, 1949 (Detroit, Mich.)
Detroit Stock Exchange Annual Dinner at the Hotel Statler.

Feb. 15, 1949 (New York City)
Tryouts at the New York Chess Club for membership on American team to play for New York Stock Exchange against Amsterdam Stock Exchange in match scheduled for March 5.

Feb. 21, 1949 (Philadelphia, Pa.)
Investment Traders Association of Philadelphia Annual Mid-Winter Dinner at the Benjamin Franklin Hotel.

March 16-17, 1949 (Chicago, Ill.)
Central States Group of IBA Spring Meeting at Drake Hotel.

Oct. 5-9, 1949 (Colorado Springs, Colo.)
National Security Traders Association Annual Convention at The Broadmoor Hotel.

Dec. 4-9, 1949 (Hollywood, Fla.)
Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

Southern Oil Corp. Stock on Market

Petroleum Equities Corp., 595 Madison Avenue, New York, is offering 1,500,000 shares of common stock (par 1c) of Southern Oil Corp. at $1 per share. Stock is being offered as a speculation.

The company was organized with an authorized capital of 50,000 shares of common stock (par $1). On Aug. 11, 1948, company issued and sold for cash at $1 per share 11,500 shares of common stock.

The 11,500 shares of common stock initially issued were reclassified on Aug. 27, 1948, on the basis of 100 shares for one, into 1,150,000 shares of common stock. If all the shares presently offered are sold shares outstanding will be 2,500,000.

Corporation was incorporated in Delaware Aug. 9, 1948, as Southern Gulf Oil Corp. By amendment to its charter dated Sept. 28, 1948, name was changed to Southern Oil Corp. It is qualified to do business as a foreign corporation in Mississippi. Application for qualification in other states will probably be made.

The company is engaged in the business of purchasing and acquiring producing and nonproducing interests in oil and gas properties, oil and gas leases, the producing of oil and gas, and is also engaged in the drilling of wells for itself and for others, as contractor.

The Economic Consequences of British Socialism

(Continued from page 8)

occasion given formally and publicly, that is merely making explicit and open a state of affairs that has long existed. It must be a very long time indeed since a Governor of the Bank of England was elected without the approval of the Government of the day. Another of these minor nationalizations is that of Cable and Wireless, the company which owns and operates the British overseas communications system. There again, I can see arguments of expediency for and against the actual public ownership of a concern which must in any case necessarily operate within a fairly tight framework of governmental regulation. But I can see no question of principle involved. The third of these minor nationalization schemes is that of civil aviation. Perhaps you would not think it minor, but we do, for the reason that civil aviation in Britain has always been—and from the circumstances of the case, which are different from those in this country, probably always must be—subsidized by the Government.

Major Nationalizations

That leaves five major industrial nationalization schemes. Coal was the first, and the National Coal Board has now been the sole owner and operator of coal mines in Great Britain for two complete years. The second, chronologically, was Transport. The British Transport Commission came into existence just over a year ago, on Jan. 1, 1948. From that date it has owned and operated the railways and it is gradually exercising its powers to assume the ownership and operation of passenger and freight traffic on the roads of the country and of the docks, harbors and canals. It does not cover shipping, which remains in the hands of private enterprise, except for the cross-Channel routes operated by the railway companies. The British Transport Commission is the owning and supervising body; but operation is in the hands of five subsidiary executives, the Railway Executive, the Road Transport Executive, the Docks and Inland Waterways Executive, the Hotel Executive and the London Transport Executive for the special problem of passenger traffic in the metropolitan area.

The third major scheme in chronological order was electricity, which came into effect on April 1 last. You must remember that the wholesale distribution of electric power—that is, the nationwide high-tension grid, which buys power from the generating stations and sells it to the distributing concerns—was nationalized many years ago, by a Conservative Government and, I should in fairness add, has been a very great success from every point of view, both financial and technical. So that the nationalization of the rest of the industry was not quite so complete a novelty as might be thought. The whole industry is now owned by the British Electricity Authority, which operates through regional boards. Fourthly, there is the nationalization of the gas industry. There is no nation-wide gas grid in Great Britain, so the nationalization scheme is more localized with a supervisory Gas Council at the center. This scheme has been enacted into law, but it does not take effect until April 1 next.

Steel

Finally, there is the bill for the nationalization of the iron and steel industry. This is now before Parliament and as a General Election will almost certainly occur before it can take effect— and possibly even before it is enacted —it must not be taken for granted that it will go through. But the scheme proposed has one interesting variant on the others. In all the other major cases, the Government has compulsorily purchased the assets of the existing companies, most of which will be wound up and cease to exist. In the steel industry, it is proposed to purchase the capital of the existing companies, but to leave each of them intact, with its own board of directors, though of course with only one shareholder—the Government's Iron and Steel Corporation. This is proposed because of the much more varied and more competitive nature of the steel industry.

Those are the five major schemes. You will see that only three of them are in actual operation, and only one, the coal scheme has not merely completed a full year but also published the results of a year's trading. The basis of ascertained fact for any firm conclusions is thus very narrow. Nevertheless, I think a certain number of at least provisional judgments are possible.

Perhaps I ought first to tell you from what point of principle I approach the making of judgments. It would be truer to say that I approach it from a lack of principle. I have never been able to convince myself that the public ownership of an industry is either right in principle or wrong in principle. That the state should own all industries, or the majority of industries, I am sure is wrong. But so far as any particular industry is concerned, I don't think any of us can afford to be absolutist and say that there is no form of economic activity that the state can properly conduct. We have accepted that it can and should be responsible for such things as the mails, the highways and the schools, all of which were originally privately owned or at least let out to private contract. I find it impossible to believe that this list of exceptions reached a final limit, appointed by divine law, about the last quarter of the 19th Century. There may be additions that, through changing circumstances, can properly be made to the list. The only correct attitude, as it seems to me, is to preserve an open mind and judge each case on its merits. But when it comes to judging on the merits, I think there is no doubt that to run a whole industry from one board room, with political pressures evident at the top and bureaucratic methods of procedure in operation lower down, is a poor way of doing things. Other things being equal, a nationalized industry will be an inefficient industry. It is only, therefore, when other things are not equal, when they are sufficiently unequal to outweigh these internal weaknesses, when there is something that needs doing in the industry that only the state can do—it is only when there is some strong specific presumption in favor of nationalization that it can be regarded as a good thing to do.

Experiences Thus Far

I believe our experience in Great Britain is already confirming the soundness of this way of looking at things. Certainly it has already exploded many of the arguments that are usually advanced in favor of nationalization in principle. For example, it was always said that the morale of the workers was badly affected by the knowledge that they were working for employers who were inspired by the wicked profit motive and that once they knew they were working for the community, there would be fewer disputes, less absenteeism and a general improvement in keenness and productivity. We now know—what most of us suspected—that this is bunkum. Keen eyes have thought they detected, in the first few weeks of a new nationalization, some evidence of greater willingness to serve on the part of the employees. But if so it has not lasted beyond the customary length of a honeymoon, nor has it been large enough to register in any of the statistics. In the coal mines, for example, absenteeism is as great and disputes are as frequent as under private enterprise, and if there has been a slight improvement in output per manshift, that is at least as likely to be due to the progress that has been made in mechanization as to any better morale. The trade unions, in fact, are disappointed with the fruits of nationalization. In all its schemes, the government has very rightly set its face against any direct representation of the unions or of the workers upon the controlling boards. Trade unionists have indeed been appointed to them, but in their personal capacities, and they have been required to resign all their posts in the union before taking office. Nationalization, to the ordinary miners down the pit, has always meant that the industry would become their own industry. They say that it is not nearly the same thing to discover that it is now the nation's industry; indeed, they complain that the old private owner, for all his faults, was visibly there to be complained to and to be stormed at; he was not the helpless agent of a remote and soulless board in London. The old argument is reappearing in the form that if the industry were really handed over to the men and their union to run, they would work with a real sense of satisfaction and that productivity would shoot up. This argument is bunkum too, and I am glad to say that there is no sign of its being treated as anything but bunkum by the Labor Party. But the fact that it can be heard at all illustrates how dead is the old belief that the mere assertion of public ownership would automatically improve the psychological atmosphere of an industry. Indeed, it may be that it has the opposite effect, for a politically appointed board, subject to directions from the government and consisting in part of ex-trade unionists, is inevitably a weak body in collective bargaining and in the maintenance of industrial discipline. It may turn out to be the greatest weakness of nationalized industries that they are sitting birds to the unions, and that a nationalized industry is one in which labor costs are constantly pushed up, to the detriment of the consumer and the community. I say that may turn out to be a weakness. It certainly has been so in the past two years in Britain, but then in a period of overfull employment and of urgent universal demand, all employers tend to be weak bargainers. Unless I am misinformed, examples of rapid rises in labor costs, at the behest of the unions, have not been entirely unknown in that citadel of private enterprise, the United States.

Effect on Management

Another of the traditional arguments in favor of nationalization in principle has always been that, when an industry is no longer managed by those who chance to be its owners, but a deliberate selection of the best men available is made, the quality of the top management will improve. This also, I think, has been disproved. I do not wish to deny the quality of the men who have been appointed to the new boards. Certainly, the political element in their selection, though it exists—as is, I suppose, inevitable— is certainly not obtrusive. The Chairman of the National Coal Board is a former coal owner who if he has any politics, would presumably be a Conservative. The Chairman of the Transport Commission is a former permanent civil servant, who therefore has no politics. The Chairman of the Electricity Authority is the former General Secretary of the Trades Union Congress, and this alone, of the three major cases, could be called a political appointment. But though these men and their colleagues are men of ability, who have been honestly appointed, I do not think anybody would claim that their standard of competence is noticeably above that of private industry. Moreover they suffer from the disadvantage of having to work as a board or committee. It is true that private industry is also managed by boards of directors, but a private board consists of men chosen because they can work together, while a publicly appointed board is constituted on the opposite principle of reflecting many different points of view. It requires a chairman of quite outstanding personality to make such a board work well.

Regarding the Professional Directors

Another very interesting conclusion is beginning to emerge from British experience. It has been the fashion for some time among Socialists to decry the practice of private industry of electing part-time nonspecialist members of boards of directors. The earlier nationalization boards consisted very largely of whole-time members. Moreover, every member was put in charge of one department of the board's functions—such as production, sales, personnel, research, etc. Inevitably these men tended to regard themselves less as members of a board with collective responsibility than as heads of departments meeting in conference but with ties of loyalty to their departmental subordinates. This undermined the cohesion of the board itself and it made life very difficult for the subordinate regional and district boards, each of whose specialists—the district sales manager or the district production manager—was in direct relationship with a member of the central board in London. The coal industry, in particular, has suffered under this form of organization, and there is a definite reaction towards the nonspecialist board with a large admixture of part-timers. It has been rediscovered that functional specialists have their limitations and that there are virtues in broad knowledge in ripened judgment and in nontechnical common sense. In short, it has been discovered that private enterprise knew rather more, and the theorists rather less, about how to run industry than had been supposed.

In all these ways, then, the arguments in favor of nationalization in principle have been disproved, and the belief that there was some magic in the mere fact of public ownership has faded. But I think it is equally true to say that the arguments *against* pubic ownership in principle have also—I won't say been disproved, but I will say that they have been discovered to have very little immediate application. Certainly no disasters have followed upon nationalization. On the contrary, these industries have continued to be managed by the same sort of people—in the overwhelming majority of cases, by identically the same people—as they were before, and in exactly the same way. The ordinary resident in England, unless he happens to have been a shareholder in one of the expropriated companies, is unable to detect any difference whatever as a result of nationalization. Some people would say that there is one big difference. Each nationalized industry in turn seems to run at a loss in its first year. Now this is very unfortunate for the Socialists and it will be amusing to watch them, in the election campaign that is approaching, trying to escape from the accusation that socialism brings bankruptcy. It will be a new, and a chastening, experience for them to be on the defensive. Nevertheless, I think a fair-minded man must admit that the losses they have suffered have been their bad luck rather than their bad management. On the railways, the loss has been the result of somewhat smaller post-war traffic combined with the high and rigid level to which costs were pushed during the war. Something of the same sort, I believe, is happening in the United States. In the coal mining industry, the first year's loss was due to increases in wages conceded before nationalization had taken effect.

No Economic Consequences

In short, to the question you have put to me, "what have been the economic consequences to date of the British nationalization schemes," the nearest I can get to a candid answer is to say, none at all. Certain tendencies have been revealed and on the whole they tell against nationalization. But none of them makes a great deal of difference in the short run. The evidence to date fully confirms the judgment that the mere fact of ownership of an industry, whether it is public or private, is of little or no importance at all. What *does* matter is how the owners of the industry, whoever they are, run it. And on that vital point the only evidence available to date is that a publicly-owned industry is run in very much the same way as a privately-owned industry, certainly no better, but there is no proof that it is run very much worse.

Indeed, I make a grievance out of this lack of change. If there was no intention of making a drastic change in an industry's method of operation, what on earth was the point of taking all the trouble to nationalize it? If you merely substitute public for private ownership, and do nothing else, then the probability seems to me that your industry will slowly deteriorate. Political pressures, deference to the trade unions, committee government and—above and beyond all else— the lack of competition (though there has been far too little competition in recent years in British private industry)—in time all these factors of decay will have their effect. Unless there is something big you want to do to offset all these, then there is no case for nationalization.

The Things Needing Doing

It so happens that, in each of the three big industries that have been nationalized in Britain, it is possible to see something big that needs doing and that only the state can do. In *coal*, the argument is no doubt familiar to you. The British coal-mining industry is very old and geologically very difficult to work. Years ago it should have had a massive transfusion of new capital, but there was plenty of cheap labor available, so the industry went that way instead. Now that there is no more cheap labor—indeed, an insufficiency of labor willing to work in the mines at any price— the industry needs a gigantic program of rationalization, of reequipment and of concentration on the lowest-cost pits. It has been made quite clear over the past 30 years that this task was beyond the powers of the private owners of the industry. The economic justification for the nationalization of the mines is that it is only the state that can provide the capital and carry through the reorganization. To say that only the state can do it is not the same thing as saying that the state will in fact do it. That remains to be

seen. But if it does, it will reap economies more than enough to offset the defects of political weakness and of cumbrous management that are inherent in nationalization.

In *transport* also there is a similar argument. Great Britain, you must remember, is a tight little island, no larger than the States of New York and Pennsylvania combined, but with one-third of the population of the whole United States in that area. By the end of the 19th Century, the island had been equipped with a railway system adequate, and more than adequate, to carry all the inland transport business of the country. Indeed, as was demonstrated during the war, the British railways can still carry nearly all the traffic of the country. Nevertheless, there has grown up in the last 40 years a second transport system, on the roads, which can also move very large traffics. Beyond any doubt, Great Britain has more transport than it needs. If both these transport systems are to be kept fully maintained and fully staffed, there will be great waste of resources. You have a pale reflection of the same problem here, but with your vast distances and your still rising population, it is not nearly as severe. There is in Britain at least a case for working out some differentiation of task between the rail and the road, in order to reduce the volume of transport capital that has to be maintained and the numbers of transport employees who have to be remunerated. Such a sorting out of tasks might be the means to a great reduction in the overall cost of transport in Britain. Clearly it could only be done if both systems of transport were in the same ownership, and equally clearly the only possible sole owner is the State. It does not follow, once again, that it will be done; I would not be over-optimistic about it. But if it were done, the nationalization of transport might be the means of securing a great economy for the British nation.

Electricity

Similarily in the case of *electricity* the British electricity supply industry got off on the wrong foot in the 1890's owing to the excessive parochialism that was then inflicted upon it by Parliament. The subsequent process of consolidation has never fully succeeded in putting this right, very largely because of the impossibility of consolidating municipal undertakings which are almost standard practice in the cities, and company undertakings in the small towns and rural areas. There has hitherto been far too much variety, not merely in charges and rating systems but also in technical factors such as voltages and frequencies. Here again there are real economies to be reached which may be large enough to outweigh the characteristic defects of public ownership.

In each of these three cases, then, there are some arguments for nationalization. There are, so to speak, strategic advantages to be reaped that may be enough to offset the tactical disadvantages that are inseparable from large-scale, bureaucratic, monopolistic organization. But while the tactical disadvantages are almost inevitable and make their appearance at once, the strategic gains will have to be worked for, and in any case will not mature for some time. The onus of proof is quite definitely on the advocates of nationalization. They may be able to provide the proof—for the industries that are already nationalized—but that depends on what they do with their industries now that they have nationalized them. The fact of nationalization proves nothing; the future conduct of the industries will prove everything.

But is this very different from the conclusion that I might have reached if you had asked me to speak on "The Economic Consequences of American Private Enterprise"—that it all depends on the quality of the management and the policies it pursues? This is where I leave the narrower definition of Socialism and, in my concluding minutes, say something about the wider issues that are involved.

The Struggle of Ideas

We are witnessing in our times and within our own democracies, a great struggle of ideas. Western industrial civilization, as we know it, grew up under the domination of a system of ideas that we now call those of the Right. It was a system of ideas that exalted material progress and production, and under it more wealth has been created than was ever before imagined. But it was also a system that took little notice of the miseries and the injustices that were the price of its progress. We have therefore in the last generation seen the rise of the opposite doctrines of the Left, which exalt the security and social welfare of the individual, even at the cost of economic efficiency and the maximum creation of wealth. This is one of the great antitheses of our time, which reappears in innumerable guises. It is the antithesis between Progress and Security, between the Efficiency of the economic system and its equity. It is the contrast between the gospel of work and the endowment of leisure, between the premium that our fathers put upon thrift and the stimulus that the present age gives to consumption. It is the conflict between Samuel Smiles and Karl Marx.

I do not believe that any of us can afford to be fundamentalists in this conflict. Life would be easier if one could say that one order of ideas is wholly right and the other wholly wrong. But I do not think it is so. We cannot simply go back to the nineteenth century. There is far too much of the logic of the twentieth century in the ideas of the Left for it to be possible to sweep them aside. I am one of those who think that the movement to the Left of the last 20 years has gone too far and that, if we are to hold to the course that history has set us, the time is due for a tack to the Right. But there must be both elements in our twentieth-century society, and we shall spend the rest of our lives learning how they can be trained to double harness.

Of this great antithesis, the issue of the public ownership of industry, which I have been discussing with you, is only one of the manifestations. Indeed, it is not even one of the more important, for what are fundamental are the ideas and the aspirations of the Left, not the particular peace of social mechanism through which they show themselves. I dislike the discount at which the present government of my country values such things as enterprise, and efficiency and thrift. But the move to socialize industry is not the cause of this discount, it is one of its effects. If, therefore, you look upon socialism as an exotic disease, like typhus or beri-beri, the symptoms of which it may be interesting to have described by a visiting traveler, but which can be kept out of your own country by quarantine regulations at the ports, I submit you are making a great mistake. For one thing, is is not a disease, but a perfectly legitimate and responsible movement of human thought. And for another, though the manifestations of it may be different in different countries, it is a tendency that is present, in this twentieth century, everywhere where men are free to think. Or do you perhaps believe that enterprise and efficiency and hard work and thrift are not under attack in your own country?

I said "under attack"—but that is the wrong word, for it suggests a battle. And this issue of Right and Left is not a battle that can be won by either one killing the other. It is rather a problem that has to be resolved by the mating of the one with the other and the birth of offspring that takes something from each but has its own life.

But there is a battle in the world today, a real battle to the death. It often appears in the disguise of a battle between different systems of economics. But that is a trap set by the enemy and designed to foster unnecessary quarrels in the ranks of those who oppose him. If the main difference between the Soviet system and our own were simply that they believed in the public ownership of industry and we did not, we could agree to differ and each mind his own business. But we know that is not what is at issue. It is human liberty that we cannot agree to differ about. It is not the public ownership of industry that we fear, but tyranny and the military aggression that follows in its wake. What divides us from the Soviets is not their views on the matters I have been discussing, but their views on my right to discuss them.

I have sometimes heard the argument in this country that, since Communism means a complete loss of liberty, every Socialist experiment must mean some loss of liberty. That seems to me to be poor logic—unless you are prepared to admit that the American public school system, the United States Post Office, the State Banking Commissions and the Maritime Commission are all of them limbs of tyranny. Certainly nobody in England thinks the basic liberties are endangered by the socialist experiments we have had. All of them will be submitted, within 18 months at most from now, to an election that will be as free—and, I would add, as unpredictable, as anywhere in the world.

Democracy, after all, is a system of trial and error. Perhaps all systems of government are that, but only democracy provides deliberate opportunities for the correction of error. If there be error in the socialist experiments it will be corrected.

The lawyers have a doctrine of *Uberrima Fides*. I am no lawyer and perhaps I misconstrue it But as I understand it, the doctrine is that, within a jurisdiction, every court must accord the utmost faith to the acts of every other court. However queer and misguided the other court's decisions may seem to be, they must be accorded the utmost faith that all will turn out for the best. I suggest that we might do worse that evolve a doctrine of *Uberrima Fides* between free democracies. If you believe in democracy, you believe that it puts its errors right in the end. This experiment has not yet appeared before the court of first instance. Let us suppose that the American people were to elect to office an administration pledged to experiments of a novel and, as many people thought, dangerous kind, and suppose that that administration were re-elected—I am only supposing—to a second, a third, a fourth, and even a fifth term of office. Would you then despair of the Republic?

We think we know about as much about the practice of democracy as you do. Indeed, some people think you got the idea from us in the first place. I ask you to believe that what is proved to be error in the present socialist experiments will be washed away, and that what is good will add one more stone to that great edifice of human achievement that we call the society of free men.

Impact of Gold Inflow on Bank Reserves

Federal Reserve Bank of New York in current "Monthly Review" traces procedures of Treasury gold buying, and concludes, in 1948, retirement alone of government securities held by Reserve Banks reduced bank reserves by three and half times the increase in U. S. monetary gold during year.

The February issue of the "Monthly Review," published by the Federal Reserve Bank of New York, contains an informative analysis of the effect of gold inflow on the nation's bank reserves. According to the article:

"The postwar inflow of gold [1] to this country continued during 1948, but was on a substantially lower level than in 1947. Net imports, valued at $1.7 billion, were only about one-tenth smaller than in 1947. However, as the accompanying table indicates, the total amount of gold earmarked here for foreign account during 1948 exceeded the amount released from earmark, whereas in 1947 the total amount released was in excess of earmarkings. Actual purchases of foreign-owned gold by the Treasury in 1948, therefore, were about $1.4 billion smaller than in 1947.

"The postwar movement of gold to the United States was at its peak in 1947, when foreign countries drew heavily on their gold reserves to help finance their huge volume of imports. The gold reserves of many countries were, consequently, severely depleted.

Analysis of Increases in United States Gold Stock, 1946-48
(In millions of dollars)

	Monetary Gold Stock		Selected Factors of Change			
	End of Year	Increase	Net Imports	†Reduction in Gold Ear-marked for Foreign Accounts	Decrease in Stabilization Fund	Total
1946	20,529	464	312	368	—‡159	521
1947	22,754	§2,225	1,866	1,057	63	2,986
1948	24,243	1,489	1,701	—¶195	*---	*---

***Not yet available. †Excludes gold held for international account. ‡Increase in Stabilization Fund. §Includes transfer of $687.5 million dollars gold subscription to the International Monetary Fund. ¶Increase in earmarkings.**

Various measures that have been taken since 1947, in particular the adoption of the European Recovery Program, lessened the strain on foreign gold reserves. Europe's dollar payments for imports from the United States were thus reduced very substantially, while offshore purchases under the program also resulted in some increase in the dollar receipts of certain Western Hemisphere countries. Exports of goods and services to this country, meanwhile, rose considerably. As a result, gold sales to this country began to decline toward the level of current world gold production (outside of Soviet Russia).

"Even though gold sales to this country last year were considerably smaller than in 1947, they constituted a problem of some magnitude for the Federal Reserve System since they tended to increase member bank reserves by a like amount. Every such addition to reserves in the past year, when average reserve requirements varied between roughly 20 and 25%, became the base for a potential four to fivefold increase in credit to the public. It is appropriate, therefore, to review in some detail the process by which gold imports—the most important source of additions to the gold stock—result in added bank reserves, and what steps can be and have been taken to offset such a growth in the credit base.

"Some of the gold imported into this country is purchased by the Treasury immediately; most, however, is placed under earmark. When imported gold is earmarked, it is physically set aside in the vaults of the Federal Reserve Bank of New York (which acts as the agent for the whole Federal Reserve System in international banking transactions) and does not enter into the gold stock of the United States. It becomes available for purchase by the Treasury only when the foreign country involved decides to release the gold from earmark in order to acquire dollars.

"The general account balances of the Treasury with the Reserve Banks tend to decline as the Treasury makes payments for the gold so purchased. At the same time, there is a rise in the dollar balances owned by the sellers of gold at the Federal Reserve Bank of New York. Normally there is at least a short interval between the time when the dollar accounts of foreign authorities are credited with the proceeds of their gold sales and the date when the proceeds are used for the payment of American goods and services. Ultimately, however, the foreign balances at the Federal Reserve Bank are drawn down and member bank deposits and reserves are correspondingly increased. These increased reserves provide the base for potential credit expansion.

"To examine the procedure in more detail, the purchase of gold by the Treasury involves two additional steps not mentioned above. First, when the Treasury purchases gold, Treasury cash holdings [2] increase by the amount of the purchase, while total Treasury funds (including bank balances) remain unchanged. Gold simply replaces balances with the Reserve Banks on the books of the Treasury. The second step is the Treasury's issuance of gold certificates to the Federal Reserve System. Upon their issuance, Treasury cash is reduced by an amount equal to the gold certificates issued (since the gold is no longer considered as cash but as a 100% backing for the gold certificates) and balances with the System are restored. This process of transferring gold into and out of the General Fund of the Treasury has no effect on member bank reserve balances. Member bank reserves are affected only at the time when the proceeds of the gold sales are paid out by foreign monetary authorities.

"When the Treasury has completed the operation by replenishing its balances with the Reserve Banks through issuance to them of gold certificates in the amount of the gold purchased, there is of course no net drain on Treasury deposits with the Federal Reserve System. In the meantime, member bank deposits and reserves have been increased by the amount of the government gold purchases (as foreign holders spend the proceeds of gold sales in the market), and thus a potential basis for increasing bank credit has been provided.

"The effects of an increase in the monetary gold stock on bank reserves are no different today, when the Treasury alone may buy gold, than under the system that existed prior to 1933, when the commercial banks were the major buyers and sellers of gold. Under

(Continued on page 47)

1 Consisting of net imports, adjusted for net changes in the total of gold earmarked for foreign accounts at this bank.

2 Treasury cash includes free gold, Federal Reserve notes, and Treasury currency in the General Fund of the Treasury.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

● **Affiliated Fund, Inc.**
Jan. 24 filed 10,000,000 shares common stock (par $1.25). **Underwriter**—Lord, Abbett & Co., New York. Price, market. **Proceeds**—For investment.

● **Aircraft Mechanics, Inc., Colorado Springs, Colorado**
Jan. 24 (letter of notification) 240,000 shares of common stock. To be sold at $1.25 per share. No underwriter. For operating capital, retirement trade accounts and current RFC loan and for equipment.

Allied Western Oil Corp., New York
Jan. 19 (letter of notification) 1,200,000 shares of common stock (par 1c). **Underwriter**—Atlantic Securities Co., New York. **Price**—25c per share. Acquisition of oil leases, properties, drilling, etc.

● **Alondra Park Country Club, Los Angeles, Calif.**
Jan. 25 (letter of notification) 10,870 shares ($2 par) common and 10,870 shares ($10 par) preferred. To be offered in units of one share of each at unit price of $12. No underwriter. For construction of golf course and clubhouse.

American Box Board Co.
Jan. 5 filed $5,400,000 15-year 4¼% convertible sinking fund debentures. **Underwriter**—Paine, Webber, Jackson & Curtis. **Proceeds**—To pay off a long-term obligation and to pay for part of the costs involved in a program to improve and expand a pulp and paper mill. Expected about Feb 9-10.

● **American Business Shares, Inc.**
Jan. 24 filed 2,500,000 shares common stock (par $1). **Underwriter**—Lord, Abbett & Co., New York. Price, market. **Proceeds**—For investment.

American Light & Traction Co., Chicago
Jan. 10 United Light & Railways Co. filed 634,667 shares of American Light common ($25 par). **Underwriter**—None. **Offering**—The shares will be offered at $12 per share to holders of United Light common of record at the close of business Feb. 7, on the basis of one share of American Light common for each five shares of United Light common. Rights will expire March 9.

American Steel & Pump Corp.
Sept. 21 filed 200,000 shares ($2 par) convertible class A stock. **Underwriters**—Herrick, Waddell & Reed, Inc. and Sills, Minton & Co., Inc. **Price**—$8 per share. **Proceeds**—To retire indebtedness and for working capital. Expected financing plan will be revised.

Argus, Inc., Ann Arbor, Mich.
Nov. 1 filed 115,315 shares ($10 par) 5½% cumulative convertible preferred stock. **Offering** — To be offered initially for sale to stockholders at the rate of one preferred stock and purchase warrant for each 3½ shares of common stock held. With each share of preferred purchased company will issue a purchase warrant entitling the holder to buy 80/100 of a share of the company's ($1 par) common stock on or before Dec. 31, 1950. **Underwriters**—Leason & Co., Inc., and First Securities Co., Chicago. **Proceeds**—For working capital.

Badad Insulating Boards Corp. of Palestine, New York City
Jan. 4 filed 57,144 shares of 5% cumulative ($21 par) convertible preferred stock and 57,144 shares (no par) common A stock, to be sold in units of eight shares of each class at $169 per unit. No underwriting. **Proceeds**—To buy equipment and set up plant ready for operation.

Bradshaw Mining Co., Tonopah, Nev.
Oct. 8 (letter of notification) 1,500,000 shares (5c par) common stock. **Price**—20 cents per share. **Underwriter**—Batkin & Co., New York. To repair and renovate mine of company and to exercise option to purchase processing mill and move and erect such mill on the company's property and for working capital.

California Electric Power Co.
Jan. 24 filed 100,000 shares of 5½% convertible preference stock, 1949 series ($20 par). **Underwriter**—William R. Staats Co., San Francisco, Calif. **Proceeds**—To finance property additions and betterments.

● **California Electric Power Co., Riverside, Calif.**
Jan. 28 filed $3,000,000 of 3% first mortgage bonds, due 1978. **Underwriters**—Names to be determined through competitive bidding. Probable bidders include Halsey, Stuart & Co. Inc.; Shields & Co.; Kidder, Peabody & Co.; Blyth & Co., Inc. **Proceeds**—To retire $500,000 of bank notes and to finance part of the construction program of the company and its subsidiaries.

Capital City Boating Corp., Washington, D. C.
Jan. 4 (letter of notification) 50,000 shares ($2 par) 6% non-cumulative preferred stock. Price, $3 per share. **Underwriter**—Lawrence R. Shepherd & Co., Washington, D. C. To operate company, purchase an excursion boat and invest in the securities of other transportation or amusement companies.

Central Maine Power Co.
Jan. 10 (by amendment) 286,496 shares ($10 par) common stock. **Offering**—Company's common and 6% preferred stockholders have preemptive rights to purchase such stock. However, company states that it believes New England Public Service Co., which holds 77.8% of the common stock, will waive its preemptive right to purchase 219,196 shares of the total issue, making such shares available for immediate sale to an underwriter. Company proposes to offer the remaining 67,300 shares to its other common and to its 6% preferred stockholders pursuant to their preemptive rights in the ratio of one share of common stock for each six shares of common stock presently held and five shares of common stock for each six shares of 6% preferred stock. It is proposed that the subscription rights be negotiable. **Underwriter**—Company proposes to enter into a contract with an underwriter for the purchase by the underwriter of the shares made available for sale to the public by the waiver by New England Public Service Co. of its preemptive rights in the proposed issue and in addition, for the purchase by the underwriter at the conclusion of the subscription period of those shares offered to stockholders, the rights to subscribe to which have not been exercised. **Proceeds**—The net proceeds are to be applied by company to reduce its outstanding short-term notes, the proceeds of which were used for the acquisition of property, the construction of facilities, and other lawful purposes.

Citizens Credit Corp., Washington, D. C.
Jan. 3 (letter of notification) 2,200 shares of Class A common stock, ($12.50 par) and 2,200 shares of Class B common ($25c par). To be sold in units of one share of Class A and one share of Class B at $15 per unit. **Underwriter**—Emory S. Warren & Co., Washington, D. C. For general funds of company.

● **City Securities Corp., Indianapolis, Ind.**
Jan. 26 (letter of notification) $250,000 5% sinking fund debentures. To be issued by City Securities Corp. under a plan for rearrangement of finances of Advance Paint Co., dated Jan. 1, 1949.

Clarostat Mfg. Co., Inc., Brooklyn, N. Y.
Aug. 26 (letter of notification) 37,400 shares of 50¢ cumulative convertible preferred stock. **Underwriter**—Cantor, Fitzgerald & Co., Inc., New York. **Price**—$8 per share. Working capital, etc.

Coleraine Asbestos Co. Ltd., Montreal, Canada
Aug. 16 filed 200,000 shares of capital stock. **Price**—50 cents per share in Canadian Currency. **Underwriter**—P. E. Frechette. **Proceeds**—For drilling operations.

● **Colorado Travel Tunnel, Inc., Denver, Colo.**
Jan. 24 (letter of notification) 120,000 shares ($1 par) common. **Price**—$2.50 per share. No underwriter. To construct tunnel.

● **Connecticut Light & Power Co.**
Jan. 31 filed an alternative to issue either 163,133 shares (no par) common stock at $50 per share or $8,156,650 of 3% convertible debentures, due 1959. **Offering**—Stockholders will be allowed to purchase, for each eight shares held, either one share of common at $50 or $50 of debentures for $50 in cash. Unsubscribed shares will be reserved for conversion of debentures into common stock. **Underwriters**—Putnam & Co.; Chas. W. Scranton & Co. and Estabrook & Co. will head a group of underwriters in purchasing the unsubscribed debentures. **Proceeds**—To be applied to the payment of $2,570,000 of bank borrowings and to future construction outlays.

● **Consolidated Caribou Silver Mines, Inc., N. Y.**
Jan. 21 (letter of notification) 78,750 common shares (no par). **Price**—$1 per share. For development of mining properties. No underwriting.

● **Delaware Power & Light Co., Wilmington, Del.**
Jan. 31 filed 232,520 shares ($13.50 par) common stock. **Offering**—To be offered to common stockholders in ratio of one new share for each five shares held. **Underwriting**—Unsubscribed shares will be sold at competitive bidding. Probable bidders: The First Boston Corp. and Blyth & Co. (jointly); Morgan Stanley & Co., Harriman Ripley & Co., White, Weld & Co. and Shields & Co. (jointly); Lehman Brothers. **Proceeds**—For construction.

● **Dividend Shares, Inc., New York**
Jan. 28 filed 5,600,000 shares (25¢ par) capital stock. **Proceeds**—For investment.

Duke Power Co., Charlotte, N. C. (2/15)
Jan. 24 filed $40,000,000 first and refunding mortgage bonds, due 1979. **Underwriters**—Names to be determined through competitive bidding. Possible bidders include: Morgan Stanley & Co.; The First Boston Corp.; Halsey, Stuart & Co. Inc.; Stone & Webster Securities Corp. **Proceeds**—To complete part of the company's construction program, reimburse its treasury for past construction expenses and to pay off bank borrowings. Expected Feb. 15.

Erndale Mines Ltd., Toronto, Canada
Dec. 14 filed $100,000 5-year 6% first mortgage bonds (convertible into common shares at rate of four shares to dollar, or at a price of 25 cents per share). **Underwriter**—James T. De Witt Co., New York. **Price**—95. **Proceeds**—To pay off, in part or in full, outstanding indebtedness and for general working capital.

● **Federal Bake Shops, Inc., Davenport, Iowa**
Jan. 19 (letter of notification) 12,000 shares ($1 par) capital stock. **Price**—$6.625 per share. **Underwriter**—Quail & Co., Davenport, Ia. To pay federal estate and state inheritance taxes on the estate of Joseph Hecht.

Farnsworth Television & Radio Corp.
Jan. 12 filed 270,000 shares ($1 par) common stock. **Underwriter** — The First Guardian Securities Corp., New York. **Proceeds** — To pay past due debts, to reestablish the corporation's credit position and for general corporate purposes. **Price**—The ceiling price will be $5.75, or market if lower, based on the closing or last sales on the date of offering, but not below $4.25 per share.

Gauley Mountain Coal Co., New York
Jan. 19, filed 10,666 shares of capital stock, of which 1,381 shares will be sold in behalf of the company and 9,285 shares will be sold by Norgreen Associates Inc. and others. **Underwriting** — None. **Proceeds** — Company will use its proceeds for additional working capital.

● **Hamilton Fund, Denver, Colo.**
Jan. 31 filed $4,000,000 periodic investment certificates, series H-DA.

Harwill, Inc., St. Charles, Mich.
Oct. 27 (letter of notification) 125,000 shares of common stock (par $1). Price, par. **Underwriter** — Charles E. Bailey & Co., Detroit. To pay current liabilities, purchase property, building and equipment and for working capital.

Hastings (Minn.) Gas Co.
Dec. 27 (letter of notification) $14,000 first mortgage sinking fund 5% bonds, due Aug. 1, 1960. **Underwriter**—Braun, Monroe & Co., Milwaukee, Wis. For working capital.

● **Hawkeye Casualty Co., Des Moines, Iowa**
Jan. 20 (letter of notification) 4,000 shares of $10 preferred stock, to be sold at $50 per share. **Underwriters**—Becker & Cownie, Inc., and Shaw, McDermott & Co., Des Moines, Iowa.

Heidelberg Sports Enterprises, Inc., Pittsburgh, Pa.
June 25 filed 5,000 shares of class B common stock (par $100). **Price**—$100 per share. **Underwriter**—None. **Proceeds**—$600,000 to be used for spectator grandstand and balance for related purposes.

● **Heller Brothers Co., Newark, N. J.**
Jan. 27 (letter of notification) 3,000 shares 7% preferred stock (par $100). To be exchanged for 7% ($100 par) preferred stock of Heller Brothers Co. of Ohio (a subsidiary) on a share-for-share basis. **Underwriting**—None.

Horwood Lake Gold Mines Corp.
Dec. 27 (letter of notification) 100,000 shares of capital stock. **Price**—$1 per share. **Underwriter**—Charles W. Warshoff & Co., Newark, N. J. For development of mining properties.

Hotelevision, Inc., L. I. City, N. Y. (2/15)
Nov. 3 filed 160,000 shares ($1 par) class A stock. **Underwriter** — Cantor, Fitzgerald & Co., Inc., New York. **Price**—$3 per share. **Proceeds**—To develop, exploit and distribute a television innovation. Expected early in February.

● **Household Plastics Co., St. Louis, Mo.**
Jan. 26 (letter of notification) 11,000 shares of 6% preferred stock (par $25). Price, par. No underwriter. For additional working capital and general corporate purposes.

Idaho-Montana Pulp & Paper Co., Polson, Mont.
Nov. 23 (by amendment) 258,675 shares ($10 par) common stock. **Underwriter** — Tom G. Taylor & Co., Missoula, Mont. **Price**—$10 per share. **Proceeds**—To erect

NEW ISSUE CALENDAR

February 3, 1949
New York New Haven & Hartford RR., Noon (EST) — **Equip. Trust Ctfs.**

February 4, 1949
Major Television Corp. — **Common**

February 7, 1949
Atlantic Coast Line RR., 11 a.m. (EST) — **Eq. Tr. Ctfs.**

February 8, 1949
Chicago Indianapolis Louisville Ry., Noon (CST) — **Equip. Trust Ctfs.**

February 10, 1949
Texas & Pacific Ry., Noon — **Equip. Trust Ctfs.**
Virginian Ry., 11 a.m. (EST) — **Equip. Trust Ctfs.**

February 15, 1949
Columbia Gas System, Inc. — **Debentures**
Duke Power Co. — **Bonds**
Hotelevision, Inc. — **Class A Stock**
Monongahela Power Co. — **Bonds & Preferred**
Rockland Light & Power Co. — **Bonds**

February 16, 1949
Denver & Rio Grande Western RR. — **Equip. Tr. Ctfs.**
Pennsylvania RR., Noon (EST) — **Equip. Trust Ctfs.**

February 24, 1949
Northern Pacific Ry., Noon (EST) — **Equip. Tr. Ctfs.**

March 3, 1949
Delaware & Hudson RR. Corp. — **Equip. Tr. Ctfs.**

March 7, 1949
Minnesota Power & Light Co. — **Bonds**
Northern States Power Co. — **Bonds**

March 8, 1949
West Penn Power Co. — **Bonds & Preferred**

March 9, 1949
Southern Ry. — **Equip. Trust Ctfs.**

March 10, 1949
Staten Island Edison Corp. — **Bonds**

March 22, 1949
New England Telephone Co. — **Debenture**

March 24, 1949
Staten Island Edison Corp. — **Preferred**

and operate a bleached sulphate pulp mill with a 200-ton per day capacity.

● **Industrial Credit Co., Cleveland, Ohio**
Jan. 26 (letter of notification) 20,000 shares of class A ($10 par) common stock. To be issued to James M. Cleminshaw or his family at $8.50 per share. No underwriter. For working capital.

● **Johnston Mutual Fund, Inc.**
Jan. 24 filed 16,000 shares capital stock (par $1). **Underwriter**—None. Price, market. **Proceeds**—For investment.

● **Keystone Custodian Funds, Inc.**
Jan. 24 filed 10,000 shares Keystone Custodian Fund Certificates of Participation series B1, 15,000 shares of series B2, 75,000 of series K2, 150,000 shares of series S2 and 30,000 shares of series S3. **Underwriter**—Keystone Co. of Boston. **Proceeds**—For investment.

● **Las Vegas (Nev.) Thoroughbred Racing Assn.**
Jan. 25 filed 500,000 shares 6% cumulative preferred stock (par $5) and 500,000 shares common stock (no par). **Underwriting**—None. **Offering**—To be sold in units of one share of each at $5 per unit. **Proceeds**—To purchase land and construct racing plant and for working capital.

● **McAleer Manufacturing Co., Rochester, Mich.**
Jan. 27 (letter of notification) 12,700 shares ($1 par) common. Price, at market. No underwriter. For working capital.

● **Macoil Corp., Paramount, Calif.**
Jan. 26 (letter of notification) 1,000 shares ($1 par) common stock being sold by a director at over-the-counter market price. **Underwriter**—Dean, Witter & Co., San Francisco, Calif.

Magma Copper Co., New York
Jan. 25 filed 204,000 shares of common stock. **Offering**—To be offered for subscription by stockholders in ratio of one new share for each two shares held. Lazard Freres & Co. and Newmont Mining Corp. have agreed to purchase any unsubscribed shares, but have no intention of making any public offering thereof. **Proceeds**—Provide funds with which company may increase its investment in San Manuel Copper Corp., a subsidiary.

● **Major Television Corp., New York (2/4)**
Jan. 28 (letter of notification) 299,600 shares of common stock (par 25¢). **Underwriter**—Mencher & Co., New York. **Price**—$1 per share. To finance manufacture and sale of television receivers and cathode ray tubes.

Mayflower Co., Salt Lake City, Utah
Jan. 17 (letter of notification) 100,000 shares (1c par) common stock. Price at market. **Underwriter**—Cromer Brokerage Co., Salt Lake City. To liquidate a loan which was obtained to pay rentals on leases and to pay future rentals.

● **Mid-Continent Airlines, Inc., Kansas City, Mo.**
Jan. 20 (letter of notification) 13,273 shares of common stock. **Price**—$6 per share. No underwriting. For additional working capital.

● **Minnesota Power & Light Co. (3/7)**
Jan. 28 filed $4,000,000 first mortgage bonds, due 1979. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Shields & Co.; The First Boston Corp.; Halsey, Stuart & Co. Inc.; Lehman Brothers; Kidder, Peabody & Co.; Glore, Forgan & Co.; Harriman Ripley & Co. **Proceeds**—For construction or to pay off short-term bank borrowings. Expected about March 7.

● **Minnesota Power & Light Co., Duluth, Minn.**
Jan. 27 (letter of notification) 9,090 shares (no par) common. To be sold at $21 per share to stockholders. No underwriters. To reimburse treasury for construction expenditures and for other corporate purposes.

Mississippi Chemical Corp., Jackson, Miss.
Jan. 3 filed 1,200,000 shares common stock (par $5). No underwriting. **Offering**—Of the total 660,000 shares are subject to delivery under the stock subscriptions now existent. **Price**—$5 per share. **Proceeds** — To construct ammonia plant.

Mohawk Business Machines Corp., N. Y.
Jan. 21 (letter of notification) 299,000 shares of common stock (par $10c). **Underwriter**—Mercer Hicks & Co., New York. **Price**—$1 per share. Corporate purposes. Expected late in March or early in April.

Monarch Machine Tool Co.
Sept. 13 filed 26,000 shares of common stock (no par). **Underwriters**—F. Eberstadt & Co., Inc. and Prescott, Hawley, Shepard & Co., Inc. **Proceeds**—Stock being sold by certain stockholders. Offering indefinitely postponed.

● **Mono Mines, Inc., Oakland, Calif.**
Jan. 24 (letter of notification) 73,419 shares ($1 par) common stock. No underwriter. For corporate purposes.

Monongahela Power Co. (2/15)
Jan. 18 filed $6,000,000 30-year first mortgage bonds to be sold through competitive bidding and 67,000 shares of common stock to be sold to West Penn Electric Co. (parent). Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce Fenner & Beane and Hallgarten & Co. (jointly); Harriman Ripley & Co. and Lazard Freres (jointly); Blyth & Co., Inc. and Goldman, Sachs & Co. (jointly); Kidder, Peabody & Co.; Glore, Forgan & Co.; Lehman Brothers; Salomon Bros. & Hutzler. Bids for the bonds expected to be opened on or about Feb. 15.

● **Montgomery Chiropractic Hospital, Inc., Norristown, Pa.**
Jan. 31 (letter of notification) 90,000 shares of common stock (par $1), of which 70,000 will be offered in behalf of the company and 20,000 shares on behalf of others. **Price**—$2.50 per share. **Underwriter**—Buckley Securities Corp., Philadelphia. Improvements, equipment, working capital.

National Battery Co.
July 14 filed 65,000 shares ($50 par) convertible preferred stock. Price and dividend, by amendment. **Underwriters**—Goldman, Sachs & Co., New York; Piper, Jaffray & Hopwood, Minneapolis. **Proceeds**—To retire $3,000,000 of bank loans and general corporate purposes. Temporarily deferred.

● **Northern States Power Co. (Wis.) (3/7)**
Jan. 28 filed $10,000,000 first mortgage bonds, due 1979. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc., Kidder, Peabody & Co. and White, Weld & Co. (jointly); Glore, Forgan & Co.; The First Boston Corp.; Blyth & Co., Inc. **Proceeds**—For construction or to pay off temporary borrowings. Expected about March 7.

● **One-Use Tooth Brush Corp. of California, Los Angeles, Calif.**
Jan. 21 (letter of notification) 200,000 shares of capital stock. To be sold to 28 persons without underwriting. To liquidate indebtedness acquired with the business and assets of the Nevada corporation and to provide working capital.

● **Pacific Gas & Electric Co.**
Jan. 28 filed 754,038 shares of common stock (par $25). **Offering**—To be offered at par to stockholders at the rate of one new share for each 10 shares held. **Underwriting**—None. **Proceeds**—For extensions, additions, etc.

Pepsi-Cola Bottling Co. of Washington, D. C.
Dec. 21 (letter of notification) 31,500 shares (10¢ par) common stock to be sold to public at $3 per share; 40,000 shares to be offered to trade accounts; 27,500 shares to be offered on behalf of a stockholder at $3 per share and 10,000 options at 1¢ per share. **Underwriter**—Willis E. Burnside & Co., Inc., New York. For working capital and payment of taxes. Expected about March 1.

Playboy Motor Car Corp., Tonawanda, N. Y.
Dec. 29 filed 1,000,000 shares of class A 20-cent preferential dividend series ($3 par) common stock and 1,000,000 shares of class B (5¢ par) com. stock. **Offering**—To be offered in units of one share each. **Underwriting**—By amendment. **Proceeds**—For purchase of equipment and working capital.

● **Public Service Co. of North Carolina, Inc.**
Jan. 24 (letter of notification) $135,000 5% general mortgage bonds, due Dec. 1, 1951, with common stock purchase warrant attached entitling the holder of each $1,000 bond to purchase 10 shares of common stock at $20 per share. **Underwriter**—W. L. Canady & Co., Inc., New York. To reimburse the treasury, in part, for past outlays for construction and additions to facilities.

● **Rare Earths, Inc., McCall, Idaho**
Jan. 13 (letter of notification) 300,000 shares (10¢ par) common non-assessable stock. **Price**—$1 per share. No underwriting. To complete the purchase and installation of a dredge and other equipment.

Renaissance Films Distribution, Inc., Montreal, Que.
Oct. 29 filed 40,000 shares (par $25) 5% cumulative convertible class B preferred stock and 10,000 shares of C stock (no par). **Underwriting**—None. **Offering**—Class B preferred will be offered at $25 per share with one share of class C given as a bonus with each 4 shares of class B purchased. **Proceeds**—To pay balance of current liabilities and working capital.

Robinson Plywood & Timber Co., Everett, Washington
Nov. 17 filed 271,025 shares ($1 par) common stock, of which 105,000 shares are to be offered by company, and 166,025 shares by 15 selling stockholders. **Underwriter**—Blyth & Co., Inc. **Proceeds**—To company from the sale of the 105,000 shares will be added to working capital, except about $275,000 may be advanced to a new subsidiary to be used by it in making part payment of the option purchase price of one-half of the stock of Conifer Timber Co., Fortson, Wash. Indefinitely postponed.

Rockland Light & Power Co. (2/15)
Dec. 30 filed $7,500,000 first mortgage bonds, series C, due 1978. **Underwriting**—Names will be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc., Harriman Ripley & Co., Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly). **Proceeds**—For construction and the retirement of bank borrowings. Expected about Feb. 15.

● **Rosecroft Trotting & Pacing Association, Inc., Oxon Hill, Md.**
Jan. 28 filed 1,086 shares ($100 par) common and 1,086 shares of $6 cumulative preferred ($100 par). **Offering**—Stock will be offered in units of one share of each class for a total unit price of $200, to present stockholders of the Association and five non-stockholders. **Underwriter**—None. **Proceeds**—For construction and payment of $100,000 loan.

● **Russell Carburetor Co., Dallas, Texas**
Jan. 19 (letter of notification) 4,519½ shares of common capital stock. **Price**—$40 per share under a share for share pre-emptive rights offering to stockholders. No underwriting. To purchase equipment and materials; and to develop sales organization.

● **Russell (F. C.) Co., Cleveland, Ohio**
Jan. 20 (letter of notification) 6,000 shares ($1 par) common. Price, market. **Underwriters** — McDonald & Co., and Saunders, Stiver & Co., Cleveland.

St. Anthony Mines Ltd., Toronto, Can.
Aug. 6 filed 1,088,843 common shares (par $1). **Price**, 40 cents per share. **Underwriter**—Old Colony Securities Ltd. of Toronto. Proceeds for gold mining operations.

● **Sedberry (J. B.), Inc., Franklin, Tenn.**
Jan. 24 (letter of notification) $250,000 6% 10-year sinking fund debentures and 5,000 shares (no par) capital stock to be sold at $10 per share. No underwriting. To retire bank loans and for expansion purposes.

● **Southern California Textile Industries, Los Angeles**
Jan. 24 (letter of notification) 60,000 shares ($5 par) common stock. Price, par. No underwriter. For equipment, raw cotton and working capital.

Southern Union Gas Co., Dallas, Tex.
Dec. 16 filed 107,430 shares ($1 par) common stock. **Offering**—To be made to holders of outstanding stock of record Jan. 3, on basis of one new share for each 10 shares held, plus the privilege of subscribing for additional shares not purchased by other stockholders. **Underwriting**—None. **Proceeds**—For construction and betterments.

● **T G & Y Stores Co., Oklahoma City, Okla.**
Jan. 19 (letter of notification) 15,000 shares ($20 par) 5½% preferred stock, series A. Price, par. **Underwriter**—R. J. Edwards, Inc., Oklahoma City, is the stock broker handling the sale. To pay part of a long term bank loan and to increase working capital.

Taylor Food Co., Raleigh, N. C.
Dec. 17 (letter of notification) 17,000 shares ($1 par) common stock, of which 7,000 shares would be sold at $1.12½ and 10,000 shares at $1 per share. **Underwriter**—Griffin & Vaden, Inc., Raleigh, N. C. For additional working capital.

● **Tip Top Foods of San Francisco, Inc., Emeryville, Calif.**
Jan. 27 (letter of notification) 5,000 shares of common stock (par $10). Price, par. No underwriter. For materials, working capital and general corporate expenses.

● **Transcontinental & Western Air, Inc.**
Jan. 28 filed 404,112 shs. ($5 par) com. stock. **Offering**—To be offered for subscription by stockholders at rate of one-fifth new share for each share held. Hughes Tool Co. (owner of 74% of outstanding shares) will exercise subscription rights to purchase 297,304 shares. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane, will head a

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group of underwriters purchasing any unsubscribed shares of remaining 106,808 shares not taken by stockholders. **Proceeds**—For general funds.

Mrs. Tucker's Foods, Inc., Sherman, Texas
Nov. 26 filed 200,000 shares of common stock (par $2.50) of which 80,000 will be sold by the company and 120,000 shares by certain stockholders. **Underwriter**—Rauscher, Pierce & Co., Inc., Dallas, Texas. **Proceeds**—For general corporate purposes.

United Utilities & Specialty Corp.
Oct. 15 (by amendment) 125,000 shares of common stock (par $1) and 33,000 stock purchase warrants (to be sold to underwriter at 10 cents each). **Underwriters**—George R. Cooley & Co., Inc., Albany, N. Y., and others to be named by amendment. Price, market. **Proceeds**—To repay bank loans, working capital, etc.

Upper Peninsula Power Co.
Sept. 28 filed 200,000 shares of common stock (par $9). **Underwriters** — Names to be determined through competitive bidding. Probable bidders include Kidder, Peabody & Co., Merrill Lynch, Pierce, Fenner & Beane and Paine, Webber, Jackson & Curtis (jointly). **Proceeds**—Will go to selling stockholders. Consolidated Electric & Gas Co. and Middle West Corp. will sell 120,000 shares and 34,000 shares, respectively; Copper Range Co., 34,000 shares and several individual owners 11,200 shares.

Waburn Oil Corp., Shawnee, Okla.
Jan. 10 (letter of notification) 980,000 shares (10¢ par) common stock, together with 150,000 option warrants. Stock will be sold at 30 cents per share. **Underwriter**—Dennis H. Petty & Co., Oklahoma City, Okla. For drilling and cost of completing wells.
penses.

● **Wechsler Machine Corp., Newark, N. J.**
Jan. 31 (letter of notification) 5,000 shares 4% cumulative non-voting preferred stock (par $10) and 2,000 common shares (no par). Price, par for preferred and $1.50 for common. **Underwriting**—None. To establish company, purchase machinery and supplies, etc.

● **Wellington Fund, Inc.**
Jan. 24 filed 900,000 shares of common stock (par $1). **Underwriter**—W. L. Morgan & Co., Inc. Price, market. **Proceeds**—For investment.

Western Oil Fields, Inc., Denver, Colo.
Jan. 5 (letter of notification) 1,000,000 shares (1c par) common. Price, 10 cents per share. **Underwriter** — John G. Perry & Co., Inc., Denver, Colo. To drill a well and acquire additional properties.

Wichman Philippine Mindanao Development Co., Cebu City, Philippine Islands
Jan. 5 filed 2,000,000 shares of voting capital stock, one centavo par value. **Price**—25 cents per share (U. S. currency). **Underwriter**—F. T. Andrews & Co. **Proceeds**—To provide funds for plant construction, diamond drilling, exploration and repayment of loans.

Wiegand (Edwin L.) Co., Pittsburgh
Sept. 28 filed 200,000 shares (no par) common stock. **Underwriter**—Hemphill, Noyes & Co., New York. **Price**, by amendment. **Proceeds**—Will go to selling stockholders. Offering postponed.

● **Worcester Gas Light Co., Cambridge, Mass.**
Jan. 26 filed $2,150,000 first mortgage sinking fund bonds, series A due 1969. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Kidder, Peabody & Co. **Proceeds** — To prepay short-term notes, refund 3½% first mortgage bonds due 1954 and pay short-term promissory note.

Prospective Offerings

Atlantic Coast Line RR. (2/7)
Bids for the purchase of $10,665,000 equipment trust certificates series J will be received up to 11 a.m. Feb. 7 by company at 71 Broadway, New York. Certificates will be dated March 1, 1949 and well mature $711,000 March 1, 1950-1964. Probable bidders include: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; The First Boston Corp.; Harriman Ripley & Co and Lehman Brothers (jointly).

Bell Telephone Co. of Pa.
Jan. 3 company filed with the Pennsylvania Utility Commission an application for authority to issue $25,000,000 25-year debentures on a competitive basis. Proceeds will be applied to the payment of advances from the American Telephone & Telegraph Co. for expenditures on additions and improvements to plant. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.; The First Boston Corp.; White, Weld & Co. and Union Securities Corp. (jointly).

Cambridge Electric Light Co.
Jan. 10 The Massachusetts Department of Public Utilities authorized company to issue $2,750,000 25-year notes, the interest rate to be determined through competitive bidding. Proceeds will be used to retire $1,750,000 bank notes and to restore replacement funds borrowed to finance plant improvements. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co.; The First Boston Corp.; Kidder, Peabody & Co.

● **Central Maine Power Co., Augusta, Me.**
Feb. 1 asked SEC permission to sell competitively $5,000,000 of first and general mortgage bonds, series R, due 1979. Proceeds would be used to reduce outstanding short-term notes. Probable bidders: Halsey, Stuart & Co. Inc.; Coffin & Burr, Inc. and The First Boston Corp. (jointly); Salomon Bros. & Hutzler; Kidder, Peabody & Co.; Harriman Ripley & Co.; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly).

Chicago Indianapolis & Louisville Ry. (2/8)
The company has issued invitations for bids to be received by noon (CST) Feb. 8 at its office 608 So. Dearborn St., Chicago, for the purchase of $4,500,000 equipment trust certificates to be dated March 1, 1949 and to mature in 15 equal annual instalments from March 1, 1950, to March 1, 1964. Probable bidders: Halsey, Stuart & Co., Inc.; Harriman Ripley & Co. and Lehman Brothers (jointly), Harris Hall & Co. (Inc.); Salomon Bros. & Hutzler.

Columbia Gas System, Inc. (3/15)
Jan. 14 company announced plans to sell approximately $20,000,000 of debentures due 1974. It is presently contemplated that competitive bids for the debentures will be opened on or about March 15. Proceeds from the proposed sale will be used to finance part of the company's construction program. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane, and White, Weld & Co. (jointly); Lehman Brothers, Goldman, Sachs & Co., and Union Securities Corp. (jointly); The First Boston Corp.

● **Delaware & Hudson RR. Corp. (3/3)**
Feb. 1 company asked authority of ICC to issue $4,800,000 of equipment certificates to help finance the purchase of 29 diesel locomotives and 600 freight cars which are expected to cost $6,492,925. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers (jointly). Date for opening bids expected to be March 3.

● **Denver & Rio Grande Western RR. (2/16)**
Feb. 1 company asked ICC for authority to issue $6,900,000 of certificates, series N, to help pay for seven diesel locomotives and 775 freight cars which are expected to cost $9,203,860. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co. and Lehman Brothers (jointly); Harris, Hall & Co. (Inc.); Salomon Bros. & Hutzler. Bids expected Feb. 16.

● **Eastern Gas & Fuel Associates**
Jan. 28 company asked SEC permission to sell competitively $12,000,000 25-year bonds, the proceeds to provide funds for its construction program. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly).

Fitchburg Gas & Electric Light Co.
Jan. 24 company petitioned the Massachusetts Department of Public Utilities for authority to issue $3,500,000 10-year 3¼% notes. The notes are to be dated March 1, 1949, and will mature March 1, 1959. Proceeds will be used to retire $1,300,000 short-term notes and provide the company with $2,200,000 for plant additions. Company plans to issue the notes at par privately to two institutional investors.

● **Florida Power Corp.**
The stockholders at their annual meeting March 31 will consider proposed amendments to the certificate of reincorporation to provide for increasing the authorized preferred stock from 80,000 to 120,000 shares; increasing the authorized common stock from 1,210,000 to 1,600,000 shares and restricting the issuance of additional indebtedness maturing more than 12 months, or additional shares of preferred stock unless after such issuance the aggregate amount thereof shall be less than 75% of the total capitalization.

● **Illinois Central RR.**
Jan. 28 reported company planning sale of $6,800,000 equipment trust ctfs. in March. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co. and Lehman Brothers (jointly); Harris Hall & Co. (Inc.); The First Boston Corp.; Salomon Bros. & Hutzler.

● **Michigan Consolidated Gas Co.**
Feb. 1 reported company is planning sale of $14,000,000 in new bonds and $7,000,000 in preferred stock. Probable bidders: White, Weld & Co.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Lehman Bros.; Harris, Hall & Co. (Inc.); Halsey, Stuart & Co. Inc. (bonds only); Harriman Ripley & Co., Inc.; Dillon, Read & Co.

New England Telephone Co. (3/22)
Jan. 18 directors authorized the preparation of a registration statement covering $35,000,000 25-year debentures, to be sold at competitive bidding in March. Proceeds will be used to redeem on June 1, 1949, $35,000,000 outstanding first mortgage 5s. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc. Expected company will open bids March 22.

● **New York New Haven & Hartford RR. (2/3)**
Bids for purchase of $2,100,000 equipment trust certificates will be received up to noon Feb. 3 by G. T. Carmichael, Vice-President, 54 Meadow St., New Haven, Conn. Certificates will be dated Feb. 15, 1949 and will mature $140,000 Feb. 15, 1950-1964. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly).

● **Northern Natural Gas Co.**
Jan. 31 company has filed with the Nebraska State Railway Commission an application for an increase in capital, preliminary to a planned offering of 406,000 shares of additional common to present stockholders on basis of one share for each five shares held. Probable underwriter: Dillon, Read & Co.

● **Northern Pacific Railway (2/24)**
Company has issued invitations for bids to be received before noon (EST) Feb. 24 for $6,090,000 equipment trust certificates, to be dated March 15, 1949, and to mature in 15 equal annual instalments from March 15, 1950, to March 15, 1964. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co. and Lehman Brothers (jointly); Salomon Bros. & Hutzler; Harris, Hall & Co. Inc.); Kidder, Peabody & Co.

● **Pennsylvania Co.**
Jan. 28 the company, a wholly owned subsidiary railroad holding company of Pennsylvania RR., applied to the ICC for authority to issue $16,000,000 collateral trust sinking fund bonds in connection with purchase of Detroit, Toledo & Ironton RR. The bonds are either to be delivered to the Pennroad Corp. in part payment for the stock of D. T. & I. or are to be sold in the open market and proceeds applied toward the purchase. If bonds sold probable bidders will include Kidder, Peabody & Co. and Drexel & Co. (jointly).

● **Pennsylvania RR. (2/16)**
Bids for the purchase of $10,005,000 equipment trust certificates, series W, dated Nov. 1, 1948, and due in 15 annual instalments of $667,000 from Nov. 1, 1949-1963, will be received by company at Room 1811 Broad Street Station, Philadelphia, up to noon (EST), Jan. 18. Probable bidders: Salomon Bros. & Hutzler, Halsey, Stuart & Co. Inc., The First Boston Corp., Harriman Ripley & Co., Inc. and Lehman Brothers (jointly).

Public Service Electric & Gas Co.
Jan. 25 reported company may be in the market, possibly in April, with some $42,000,000 first and refunding mortgage bonds. Proceeds will be used to provide company with funds to retire obligations of units in its utility system. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp; Morgan Stanley & Co.; Kuhn, Loeb & Co. and Lehman Brokers (jointly).

Southern Ry. (3/9)
Bids for the purchase of $11,850,000 equipment trust certificates will be received March 9. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co. and Lehman Brothers (jointly); The First Boston Corp.; Salomon Bros. & Hutzler.

● **Staten Island Edison Corp. (3/10-24)**
Jan. 23 New York P. S. Commission authorized corporation to issue $2,750,000 30-year first mortgage bonds and $4,000,000 in new preferred stock. Proceeds from the bonds would retire the company's short-term indebtedness and provide funds required for expansion. Proceeds from preferred stock would be used by company to carry out its plan of recapitalization. Probable bidders on bonds: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co.; Kidder, Peabody & Co. On preferred: W. C. Langeley & Co.; Kddier, Peabody & Co.; Stone & Webster Securities Corp. and White, Weld & Co. (jointly); Lehman Brothers. Bids on bonds are to be received by March 10 and on the preferred stock by March 24.

● **Sylvania Electric Products, Inc.**
Jan. 28 company is considering the issuance of additional common stock to finance a part of its television expansion program, according to Don G. Mitchell, President. The size and date of the offering will be announced later. **Traditional Underwriters**—Paine, Webber, Jackson & Curtis; White, Weld & Co.

Texas & Pacific Ry. (2/10)
Company will receive bids until noon Feb. 10 at Room 2216, 233 Broadway, New York for the purchase of $2,250,000 equipment trust certificates series F to be dated March 1, 1949 and due $225,000 annually March 1, 1950-1959. Proceeds will be used to finance purchase of four 6,000 h.p. diesel road freight locomotives and one 4,000 hp. passenger locomotive. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co and Lehman Brothers (jointly).

Utah Power & Light Co.
Jan. 21 reported company is expected to sell $6,000,000 bonds in April to finance its plant expansion. Probable bidders: Lehman Brothers and Bear, Stearns & Co. (jointly); Halsey, Stuart & Co. Inc.; White, Weld & Co.; Harriman Ripley & Co., Inc.; Salomon Bros. & Hutzler; The First Boston Corp.; Blyth & Co., Inc. Company is expected to raise new money through sale, probably in May, of 148,000 additional shares of common stock. The stock will first be offered for subscription by present stockholders. Probable bidders: The First Boston Corp.; Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Harriman Ripley & Co.

Virginian Ry. (2/10)
Bids will be received up to 11 a.m. (EST) Feb. 10 at Room 1109, 44 Wall St., New York for the purchase of $3,800,000 equipment trust certificates series A dated Feb. 1, 1948, due $380,000 each Feb. 1, 1950-1959. The equipment to be covered by the certificates will consist of 1,000 steel hopper cars and 25 cabooses. Probable bidders: Haley, Stuart & Co. Inc.; Harriman Ripley & Co. and Lehman Brothers (jointly); Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

● **West Penn Power Co. (3/8)**
Feb. 1 asked SEC permission to issue $10,000,000 first mortgage bonds series N and $5,000,000 of new preferred stock series C, to be sold through competitive bidding, and 70,000 shares additional common stock (no par) to be sold to The West Penn Electric Co. (parent) and to the public holders of outstanding common stock at $28.50 per share. Present plan is to open bids for the bonds and preferred stock on or about March 8, 1949. Probable bidders: Halsey, Stuart & Co. Inc. (bonds only); Kidder, Peabody & Co.; Lehman Brothers; The First Boston Corp.; W. C. Langley & Co.; Smith, Barney & Co.; Harriman, Ripley & Co.

Our Reporter's Report

These are rather drab days in the field of new corporate issues and investment bankers are finding time hanging more than a little heavy on their hands.

The bond end of the business is exceptionally dull, only a smattering of small issues coming up for bids, including another run of railroad equipment trust certificates.

Consolidated Edison Co.'s recently floated issue of $50,000,000 first and refunding 3% mortgage bonds continue to move at an extremely slow pace, and several smaller offerings have hardly proven "out-the-window" operations.

To date the current year has been kinder to those banking groups fortunate enough to have taken on common equity deals. In these instances the sponsoring groups are not in the position of stacking up against institutional portfolio men and their judgment of values.

Bankers are a bit nonplussed by the adamant attitude of these major investors. They point out that the three groups which sought the Consolidated Edison issue, for example, constitute a very substantial cross-section of investment banking thinking.

The spread between the high and low bids, it is noted, would have made the difference in yield only 0.01 basis point, indicating that their combined judgment ran pretty much along the same line. But the potential buyers, evidently are not yet ready to yield from their own notions of what yields should be, despite pressure of idle funds in hand.

Heavy Oversubscription

Naturally with bond yields hardly such as to attract the individual investor's capital, common stocks of good-name corporations appear to get liberal attention on public offerings.

A banking firm this week brought out a secondary offering involving 25,000 shares of Gulf Oil Corp. priced at 66¼ a share with a concession of $1 a share to dealers.

The stock was snapped up almost as soon as the books were opened and the firm found itself with orders for four times the amount being offered.

Duke Power Calls Bids

Next week could mark the "trough" of the current dullness in new undertakings since only a handful of miscellaneous offerings now appear likely to reach market.

But the following week gives promise of developing a bit more activity and at least one sizable offering is definitely on the fire for that period. Duke Power Co. has called for bids on its projected $40,000,000 of new first refunding mortgage bonds, to be opened on Feb. 15.

Indications now are that four large groups will be after this one with the situation holding promise of producing really keen competition.

Smaller Issues Registered

A growing backlog of potential new business is in the making, largely in the form of moderate-sized issues for public utility companies. Several of these were put in registration within the past week.

Eastern Gas & Fuel Associates plans to sell $12,000,000 of new first and collateral trust bonds due in 25 years. Northern States Power Co. (Wis.) has filed with SEC for an issue of $10,000,000 of first mortgage bonds, due in 30 years and Central Maine Power Co. seeks to sell $5,000,000 of first and general mortgage bonds due in 30 years.

Meanwhile Bell Telephone Co. of Penna. has proposed to the State Public Utility Commission, an issue of $25,000,000 of 25-year debentures to run for 25 years, and to be sold, naturally, in competitive bidding.

New Equipments Set

In line with recent forecasts that the railroads would be in the market in a substantial way for new equipment money, issues of this type are appearing with considerable frequency.

Pennsylvania Railroad has called for bids to be opened Feb. 16 on $10,005,000 of certificates maturing in equal annual instalments of $667,000.

And the Denver & Rio Grande Western is expected to seek $6,900,000 via the same method soon, with Illinois Central reported planning an issue of $6,800,000 in March.

Impact of Gold Inflow On Bank Reserves

(Continued from page 43)

the former procedure, a commercial bank paid for gold purchases by crediting the accounts of foreign sellers, with a resultant increase in the money supply. While the bank's required reserves also rose, this deficiency was normally made good through the sale of the gold to the Reserve System. Most of the proceeds of the sale, however, became available as excess reserves for a multiple expansion of bank credit and the money supply.

"There are, however, alternative possibilities open to the Treasury for avoiding the inflationary effects of gold purchases under the present gold bullion standard. One of these methods, which was resorted to under quite different circumstances in 1936-38, is the sterilization of gold; if the Treasury's net receipts are sufficient to cover the cost of the gold purchased, it can refrain from issuing gold certificates. The Treasury can instead transfer funds to the Federal Reserve Banks from its commercial bank accounts in order to rebuild its balance with the Reserve Banks.

"The effect on bank reserves of the gold purchase by the government is completely neutralized by the sterlization operation. As already noted, after the Treasury pays for the gold it has purchased, the sellers in all probability transfer the proceeds to commercial banks (from their accounts in the Federal Reserve Bank of New York). If the Treasury now withdraws from the commercial banks an amount sufficient to replenish its Federal Reserve balances, the commercial banks are left with no greater reserves than they had prior to the gold purchase by the government. This method of offsetting gold inflows is particularly effective if the Treasury receipts used to pay for the gold are obtained from the public (from sources such as individual income taxes and sales of Series E Savings bonds); then deposit growth is arrested at the same time.

Sterilizing gold with funds obtained from the public, therefore, involves: (1) no change in Treasury balances at the Federal Reserve Banks; (2) no change in member bank reserves; (3) no increase in gold certificates facilitating monetary expansion; and (4) no increase in the publicly-held money supply.

"Actually, in recent years the Treasury and the System have adopted another procedure which, though its aims are much broader, also achieves the sterilization of gold. This procedure consists of the retirement of government securities held by the Federal Reserve System. To the extent that Treasury net cash receipts are available for this purpose, maturing government securities are redeemed out of Treasury balances transferred from deposits with commercial banks; these deposits are obtained from tax collections and security sales mainly to nonbank investors. Thus, the reserves that are created by the Treasury's gold purchases are absorbed and cannot serve as a basis for credit expansion.

"In 1948, one factor alone—the retirement of government securities held by the Federal Reserve Banks—reduced bank reserves by three and a half times the increase in the United States monetary gold stock during the year. Thus debt and monetary policy is not only sterilizing the Treasury's gold purchases but is also offsetting in substantial part the various other factors which have tended to expand bank reserves, such as Federal Reserve support purchases of government bonds and the decline in currency in circulation."

With Hornblower & Weeks

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Robert J. Langlands has been added to the staff of Hornblower & Weeks, Penobscot Building.

Willem van Marle Opens

Willem van Marle will form his own investment business in New York City shortly. Mr. Van Marle was previously a partner in Bendix, Luitweiler & Co.

Halsey, Stuart Offers Union Light Heat Bonds

Halsey, Stuart & Co. Inc. and associates are offering to the public today $5,000,000 The Union Light, Heat and Power Co. first mortgage bonds, 3% series due 1979 at 102.39% and accrued interest. The bonds were awarded at competitive sale on a bid of 101.69.

The proceeds from the sale of the bonds will be applied to the payment, in advance of maturity of $2,295,700 principal amount of the company's 6% first mortgage bonds, series A and series B, both series due Aug. 15, 1949, owned by The Cincinnati Gas & Electric Co., parent company. The balance of the proceeds will provide funds for financing, in part, the company's construction program.

Regular redemption prices for the new bonds range from 106⅜% to 100%, while special redemption prices are scaled from 102½% to 100%.

The Union Light, Heat and Power Co. is engaged principally in the purchase, transmsision, distribution and sale of electric energy for residential, commercial industrial and municipal and other public purposes, and in the purchase, distribution and sale of natural gas for residential, commercial, industrial and municipal and other public purposes. It also furnishes water service at retail and wholesale.

The company's business is solely in the Commonwealth of Kentucky, where it renders service to approximately 50,000 electric customers and 43,000 gas customers in the counties of Kenton, Campbell and Boone, and to 7,300 water customers in Campbell County.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—With one month of the freshly "mandated" President Truman and his landslide Democratic Congress behind, there is now emerging at least a tentative outline of the governmental course ahead.

The outlook is one which defies credibility on two counts. On the one hand it is beginning to appear as though the President has no thought whatever of using his leadership in the interests of moderation of his "Fair Deal" program. This appears incredible because virtually all seasoned observers have said that unless the President privately tempers his public request for his wide program of conflicting and extravagant campaign promises, he will set the labor, farmer, and conservative elements of his Democratic flock to fighting one another over the carrying out of the conflicting promises, and jeopardize his program and the stability of the country.

Of scarcely less credibility is the fact that it appears to be the Congress rather than the White House which is displaying caution. It had been expected before the opening of the session that the President would have to use his prestige and leadership to keep the Humphreys, the Douglasses, and all the other "progressive" boys from running away with the show by trying to ride off on their political horses in two or three antagonistic directions at the same time.

* * *

Actually the Congress has scarcely turned a wheel. Hardly anything of consequence has moved so far. The Congress has been busying itself in the main with relatively non-controversial subjects. The Ways and Means Committee has taken up reciprocal trade. Congress is fussing with the extension of rent control, export controls, the temporary extension of the law legalizing voluntary controls on the allocation of scarce metals, and so on. Public housing, some modified phases of the health program, a broadening of social security, and Federal aid to local education, were tagged as "relatively non-controversial" propositions slated to go through this Congress even if some of the more extreme proposals failed. Yet none of these four propositions has got to either House for a vote, and only aid to education seems imminent.

* * *

To some extent this slowness thus far can be attributed to the physical delay occasioned by the process of organizing the Congress, selecting its new committee personnel and staff, and so on. However, the outlook ahead is for even more delay. How determined this is can be illustrated best by the shadow-boxing affair going along on the matter of "civil rights."

So far the Senate Committee on Rules is getting a lot of headlines with its proposed change in the Senate rules to prevent a filibuster on a motion to consider legislation. If such a rule were adopted—and the southern Democrats obviously fight this "liberalization" on principle—it would not prevent a filibuster. It would only mean that the filibuster would have to be transferred to a controversial question (itself) and amendments, rather than a motion to consider, and it would scarcely interfere with the capacity of the southerners to talk a civil rights bill to death. It is a private axiom among Senators, even if it isn't explained carefully in public to the pressure groups, that no filibuster can really prevail in the Senate when the majority overwhelmingly want some legislation passed. So in this case the committee is killing time, talking, getting headlines, but the hot questions of anti-lynching legislation, a Federal fair employment practices law, or an anti-segregation bill, are being held in abeyance.

* * *

This delay at the Capitol is purposeful even if not conspiratorial. By common consent the smart boys on Capitol Hill have come to realize that Harry Truman isn't appearing to take a hand in the game, so that if they normally rush out to make political hay too fast with the pressure groups, they won't be reined up by the White House before it is too late and they have gone too far. They can't expect to rush toward the precipice and expect Harry to lasso them before they have fallen over the brink.

* * *

So far as the boys on the Hill can dope it out, Harry is proceeding as though he literally meant everything he has said, that he must have standby price control even if it makes the farmers mad, that he must have legislation to expand and contract bank credit at one and the same time, as though there was no political or economic reason why Congress shouldn't make good on the President's campaign promises. This stand has endured beyond the point necessary to give the appearance of consistency to the President, or to give a public facade that the President is not backing down on any of his promises.

Probably the strongest indication that the President wants "all" is that he has been playing around with this notion of a one-package economic stabilization bill, including all the controls in one bill. Whatever the final decision was or is for this proposition, or if it is broken down before emerging, the fact that the President is reputedly backing it is significant.

The theory that if you put standby materials, rationing, allocation, price, and credit controls all into one bill is that maybe this way Congress will have to take it all. It will be harder to shoot the separate items piecemeal. This is excellent high school parliamentary tactics, for in the House the boys under a rigid rule will have to gnash their teeth and probably swallow the whole bottle of nostrums. On the other hand, at the expense of running over the House boys with a steam roller, the Administration will arouse Senate tempers where the whole thing may be or could be taken very completely apart.

* * *

While this is the picture as it is seen now on Capitol Hill, one month after the new Congress, it is regarded only as a tentative outlook. The President still has plenty of time to take a hand in affairs and keep them from getting out of control. Likewise it cannot be expected that the ranting, rooting "liberals" will stay quiet too long.

BUSINESS BUZZ

"Just WHO filled the water cooler this morning?"

Rep. John Rankin of Mississippi, the sometimes conservative southern Democrat, is busy preparing for the White House and Democratic leadership an object lesson to illustrate an old accepted political rule entitled, "Cuss a man or his ideas out all you want, but don't interfere with his established political prerogatives."

When Mr. Rankin as a member of the Un-American Activities was helping to make the Administration unhappy by exposing alleged communist affiliations or former affiliations of labor leaders and former State Department employees, it was decided to hoist Rankin from Un-American Activities. So the leadership concocted the trick rule ex post facto on Rankin that no Chairman of an important committee could serve on the Un-American Activities Committee. Since Rankin is Chairman of Veterans Affairs, this shut him out.

Now the American Legion is advocating pensions for veterans, and a bill to provide $60 a month at age 60 and around $90 a month at age 65, is pending before the Veterans Affairs Committee. Ordinarily this might under normal procedure become a serious proposition not before 1955 or 1956 or a serious economic depression.

Mr. Rankin is not going to stick his finger in the dike for the benefit of President Truman. The pension bill is expected to be reported out. Since with Truman's connivance that horrible old Rules Committee of the House has been prevented from "bottling up" legislation, Rankin will get the pension bill on the floor of the House. It will be voted upon. It will pass.

On a secret ballot not 5% of the House membership would vote for it. It will not be a secret ballot. On the record, hating it privately as they will, a majority will feel impelled to vote for it. In the Senate the pension for veterans probably will be killed this year. Yet the heat on the Senators in the '50 election, built up by the veterans, will be terrific.

Hence the Administration will be caused 100 times the embarrassment occasioned by Rankin's part in annoying pet labor and New Deal boys while he was a member of the Un-American Activities Committee.

Mr. Rankin's lesson also may prove to be expensive for the country, for it will move the prospect of a pension another five to six years closer.

* * *

Members of the House Rules Committee, incidentally, have privately slipped the word out that since the leadership cut down their veto power over legislation which the White House deems benevolent, the committee has determined that it shall stand in the way of virtually nothing. Tentatively the committee has made up its mind that it will facilitate consideration of virtually everything that Mr. Truman wants which is reported out of a legislative committee. It will not let anybody lose an opportunity "to stand up and be counted in the good old Democratic way."

Of course the committee may change its mind, particularly if the control of Congress should in fact pass from the radicals.

* * *

It is said at the Capitol that the real objective of the proposed special investigation of insurance companies, particularly the life companies, is to bring the insurance companies under Federal regulation. Actually Rep. Emanuel Celler, new Chairman of the House Judiciary Committee, does not quite admit this. However, when he talks hungrily of large unregulated pools of investment money, "interlocking directorates, lack of government supervision, etc.," one sort of gets the idea that is what he is shooting at.

If the proposed investigators have gone far enough to determine what government agency shall regulate what phase of the insurance company operations, that is not known.

Unless the White House backs this proposition the "investigation" of insurance companies will not get further than the hearings on the question of whether there should be an investigation. It may be inferred by some that since "Manny" recently visited Mr. Truman at the White House and may have mentioned the proposition, that he has some White House backing. This will be doubted until it is proved.

Even with White House backing it may be doubted that this proposed investigation as a curtain raiser to later regulatory legislation, will be approved by Congress, simply if for no other reason than that the leadership doesn't want to fight everything in 1949.

One thing the proposed investigation is not: The row between the monetary authorities and the insurance companies over the latter "selling governments under the pegs to get cash to lend when commercial banks were restricted"—so goes the argument—hadn't occurred to Mr. Celler before he started to tackle the insurance companies.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)